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Russians Promote Kosygin's Deputy To Full Politburo

By Craig Whitney

MOSCOW, Nov. 27 (NYT) — The 75-year-old Soviet premier, Alexei Kosygin, absent and the Soviet leadership today voted his 74-year-old first deputy, Nikolai Tikhonov, to full membership in the Communist Party's Politburo.

Spite reports that he has had a heart attack, Mr. Kosygin did not attend the session of the Politburo. The Supreme Soviet, the national parliament to which he is as head of government, was scheduled to meet today.

The 72-year-old party leader, Leonid Brezhnev, demonstrated his continuing political strength by his failing health by delivering a sharply critical report on Soviet economic and agricultural performance to the 228-member Central Committee today.



Nikolai Tikhonov

Carter Says U.S. Honor Is At Stake

By Fred Farris

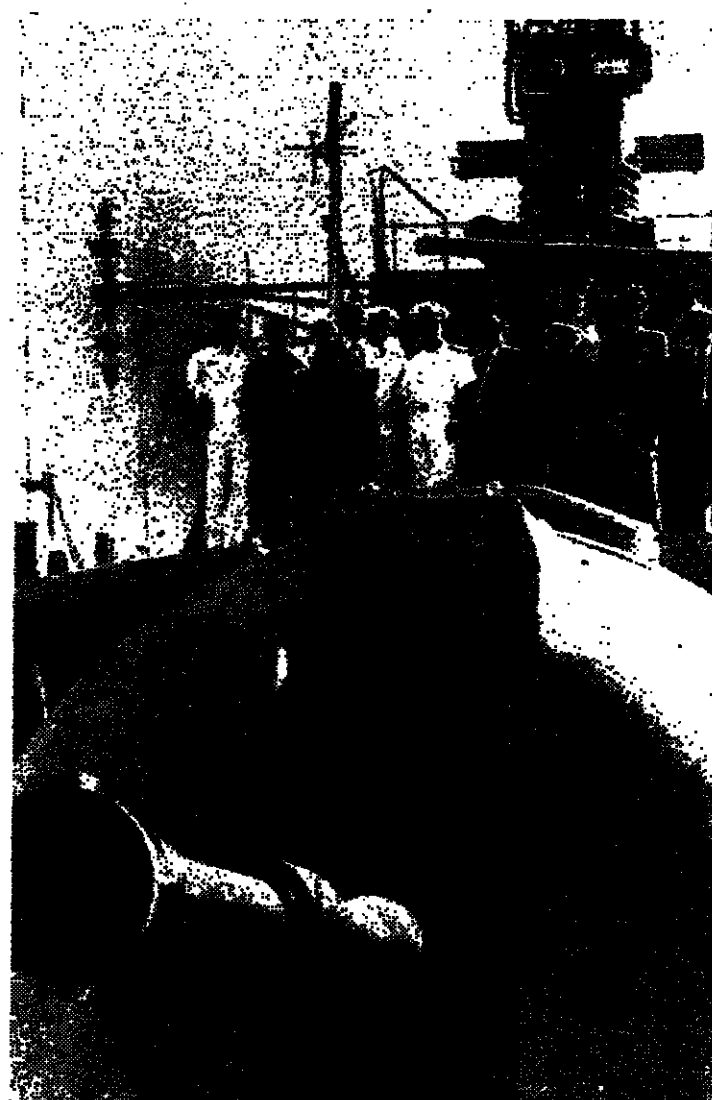
WASHINGTON, Nov. 27 (IHT) — President Carter said today that the nation's honor is at stake in the Iranian crisis and that the United States would not yield to blackmail.

Sen. Bennett Johnston, D-La., who with other legislators met with Mr. Carter this morning, said that the president felt that "simply by releasing the hostages, the slate is not wiped clean."

The senator said Mr. Carter "did not say — did not suggest — what further action might be taken. But I think all of us feel, including the president, that he will do something after the hostages are released."

He said the president "emphasized that the honor of the country comes first before the lives of the 49 hostages" held in Tehran.

The White House press secretary, Jody Powell, said later that Mr. Carter's reference to "honor" meant only that the United States will "not yield to blackmail or negotiate under duress" to obtain release of the hostages, held by Iranian militants with the sanction of Ayatollah Ruhollah Khomeini.



Admiral Ahmad Madani and naval officers inspect one of the Iranian fleet's destroyers as the nation's navy went on top alert to meet any U.S. attack to rescue the U.S. hostages in Tehran.

UN Chief Calls For Restraint By U.S., Iran

From Agency Dispatches

UNITED NATIONS, N.Y., Nov. 27 (AP) — The UN Security Council met for only 16 minutes today on the U.S.-Iranian crisis, hearing pleas from Secretary-General Kurt Waldheim and the council president, and then adjourned until Saturday.

But in Tehran, Ayatollah Ruhollah Khomeini dismissed the debate in advance and said that the Security Council members are servants of President Carter.

In one of the shortest formal council meetings on record, Mr. Waldheim called on the United States and Iran "to avoid any action which could inflame" the situation.

The council president, Ambassador Sergio Palacios de Vizio of Bolivia, repeated an appeal to Iran he had made on the council's behalf Nov. 9, asking for the release of 49 U.S. hostages held in the U.S. Embassy in Tehran.

Mr. Palacios de Vizio then adjourned the meeting until Saturday, when Iran's acting Foreign Minister Abolhasan Bani-Sadr is expected to be in New York to join in the resumed debate. The United States had agreed today to Iran's request to put off the Security Council debate until Saturday.

Ayatollah Khomeini reiterated that the U.S. hostages held for the past 24 days must be tried in the embassy compound as spies unless the United States surrenders the hostages' rooms and would blow up the embassy if U.S. armed forces attempt a rescue or if "dirty agents" of the United States try to infiltrate the compound.

Ayatollah Khomeini said the shah must be tried in Iran and nowhere else, since that is where the evidence and witnesses are. He thus appeared to doom a number of compromise formulas, by Iranians and by foreigners, designed to investigate the shah's purported crimes either at the United Nations, in the U.S. Congress or in other international tribunals.

Doctors at the New York hospital where the deposed shah, Mohammed Reza Pahlavi, is under treatment for lymphatic cancer said an operation to treat a gallstone appeared to have succeeded, a step which would pave the way for the shah's departure from the United States, possibly later this week.

The Iranian armed forces went on alert, while in Tehran there were rumors of an impending U.S. attack and warnings that American agents were plotting to infiltrate the embassy.

Iran had requested the delay in the Security Council session until Saturday night, when it said Foreign Minister Abolhasan Bani-Sadr would take part in the debate. According to reports in Tehran, the governing Revolutionary Council told Mr. Bani-Sadr to put off his trip, planned for yesterday, until the end of the current Muharram period, the holiest in the Shiite Moslem calendar.

The American delegation agreed to the postponement.

Ayatollah Khomeini denounced the council and said the meeting would be held "to talk just about the hostages and not about the cruel things that have happened to us" under the shah. He said that Iran will not accept the decision of "any council or court formed under the influence of the United States."

U.S. Rep. George Hansen, R-Idaho, who is in Tehran in a personal initiative to free the hostages, was interviewed via satellite today by the three major U.S. television networks. Reading from what he said was a top secret U.S. document, he accused U.S. officials of covering up a "tragic decision" to admit the shah to the United States.

Rep. Hansen said the document showed that the United States knew three months ago there was a good chance of hostages being taken if the shah was admitted to the United States. "I think what we need to do if we are going to persist in the hostage game is let Mr. Rockefeller, the banker in New York, and Mr. Kissinger, who seems to be so involved in this business, come over and replace the hostages," he said.

He referred to reports that pressure by former Secretary of State Henry Kissinger and banker David Rockefeller was instrumental in getting the shah brought into the United States from Mexico for cancer treatment.

"Let innocent people go home" (Continued on Page 2, Col. 4)

Inside
From markets:
A three-part special section concludes today.
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Because of Moslem Unrest

Turkey Apprehensive Over Pope's Visit

By William Claiborne

LARA, Nov. 27 (WP) — Pope Paul VI was to arrive in Turkey today exclusively Moslem country, row amid extraordinary security and no small measure of Turkish hostility because of the pope's visit.

The pope, who stated purpose here was to further progress reuniting the Roman Catholic church and the Orthodox churches of the East, will be treated as a state rather than a religious leader, and the trappings of a state visit will underscore distinction throughout his stay in Ankara, Istanbul and Izmir.

Over, in sharp contrast to the public exposure the pope is turning his visit to the United States, Turkish security authorities to keep him out of sight as possible because of the possibility of an assassination attempt. Terrorist killings have been endemic in Turkey, and Armenian extremists have warned the pope not to come.

Although the pope and his entourage will be greeted at the airport by President Fahri Korkut in a military ceremony, attendance at the arrival, even by Catholic and Orthodox leaders and Vatican envoys, is being sharply curtailed for security reasons. The pontiff will forgo the usual motorcade and will be taken by helicopter from the airport to the presidential residence for meetings with Mr. Demirel and other Turkish leaders.

Similarly, tight security will surround the pope during his visit to Istanbul on Thursday, where he will meet the ecumenical patriarch of the 200 million followers of Eastern Orthodoxy, Dimitrios I.

Because of Turkish sensitivity to the patriarch, who is viewed by many Turks as a vestige of the Byzantine world and a reminder of Greek dominance, the pope's visit with the patriarch is being billed on a government outline of the trip simply as "meetings with the leaders of various religious communities."

In the last papal visit to Turkey, by Pope Paul VI in 1967, the pope fell to his knees and prayed in St. Sophia's church, which the Turks have converted to a museum. Many Turks remember that incident with some discomfort, and government officials privately say they hope that John Paul II is discreet enough not to repeat it.

Avoiding Controversy
Turkish Foreign Ministry officials and Western diplomats agreed that the Demirel government's main objective is to keep the pope's visit as uncontroversial as possible. One diplomat called it a "damage containment effort" — and to try to reap a tourist bonanza in its aftermath.

On the one hand, the government is proud of the world attention it will receive and not at all displeased at the opportunity to demonstrate that Turkey is a democratic, secular state that allows all religious minorities to live with the 45 million Moslems here. With a troublesome balance of payments deficit and a need for foreign exchange, which increased tourism would bring, the Turks are hoping the visit will help overcome world attention to political terrorism.

On the other hand, Turks maintain a basic defensiveness about Eastern Orthodoxy, regarding the Christian and Islamic worlds as fundamentally different and, therefore, competitive to a degree.

While welcoming their close association with the West, they at the same time tend to seek closer ties to the East. To the average Turk, the Christian world begins at the Greek border.

"There will be no problems so long as the pope keeps in mind that he is coming to Istanbul, not Constantinople," editorialized Hürriyet, Turkey's highest circulation daily newspaper.

While Islamic extremists here apparently responding to widespread complaints of election corruption, Mr. Ohira said that the government planned studies leading to "a system for fair and inexpensive elections," including legislation requiring candidates to disclose their financial assets.

Following the Oct. 7 election, the National Police Agency reported more than 7,000 suspected violations involving 200 million yen (about \$800,000) in payments for individual votes, an increase of more than 20 percent in such offenses since the previous general election.

Second Minister Resigns in India

NEW DELHI, Nov. 27 (Reuters)

Industry Minister Brahmananda Reddy resigned today and said he would tender his resignation to join former Prime Minister Indira Gandhi's faction of the Congress Party, which is favored to win national elections in January.

Mr. Reddy, 70, was the second minister in five weeks to resign from the caretaker government headed by Charan Singh. Finance Minister Hemwati Nandan Bahuguna quit last month and later joined Mrs. Gandhi's party.

Mr. Reddy also resigned from the Congress Party group led by Dewraj Urs. He said the party, a junior partner in Mr. Singh's government, had become a "private limited" concern of Mr. Urs.

Japan's Premier Promises Anti-Corruption Campaign

By Robert Trumbull

YOKO, Nov. 27 (NYT) Premier Yoshi Ohira, in a policy speech opening of a new parliament session today, pledged his government to an attack on official corruption and other malfeasance in ruling circles that have been an outpouring of public anger.

The 69-year-old conservative, who has just come through a struggle in the governing Liberal Democratic Party, also declared that he had "resolved to act with sincerity" the public reprimand in the party's poor record in the parliamentary election last month.

Closures of expense accounts, evasion of customs duties, extravagant entertainment in officials of government, coinciding with an ill-proposed by Mr. Ohira to cutting budget deficits with new brought an outcry that was in the ruling party's re-election support.

Officials are focused on lavish entertainment and gift-giving by the said Denshin Denwa company, rate telephone and telegraph policy, and the Japan Railway reversion Corp. allegedly to the officials and clients. In terms, the communications was forced to reduce its telephone and telegraph rates by 7 to 25 percent.

Indignation has been fueled by closures in the courts of large to high officials in the 32

Embassy Staffs to Be Cut

U.S. Warns Against Travel In 11 Moslem Countries

WASHINGTON, Nov. 27 (IHT)

The State Department, after announcing a sharp reduction in embassy personnel in 11 Moslem countries, warned Americans today to avoid traveling to those nations unless absolutely necessary.

A department spokesman, recognizing that the Iranian crisis could lead to more assaults on Americans, said yesterday that embassy staffs were being sharply reduced in a "voluntary and temporary" program.

Today, the department warned against travel to the United Arab Emirates, Iraq, Lebanon, Syria, Qatar, Kuwait, Oman, Libya, Bahrain, Yemen and Bangladesh.

Embassies already have been sharply reduced in Afghanistan and Pakistan and "travelers' warnings" have been issued there.

Except for the 49 American hostages, several other diplomats in the Foreign Ministry in Tehran and a handful of U.S. journalists, there are believed to be no Americans left in Iran.

Offer Is Modified
Although State Department officials said last night that dependents of embassy personnel and nonessential employees would be offered a chance to return to the United States at government expense, that was modified today. They said instead that the dependents would be offered a trip to "other posts, mostly in Europe," and would have to pay their own way if they wanted to continue on to the United States.

Europeans Warn Against Military Action

By Joseph Fitchett

PARIS, Nov. 27 (IHT) — While strongly sympathetic to the U.S. predicament on the hostages' plight in Tehran, West European governments are hoping for continued restraint by the Carter administration and feel that any U.S. armed intervention would only worsen the crisis, officials said today in Bonn, London and Paris.

Anxious that the United States avoid anything that might trigger an anti-Western backlash in the Middle East and jeopardize oil exports, European officials and analysts say that Washington should be prepared for a long and probably humiliating period of trying to negotiate the release of the hostages.

While diplomats said they knew of no discussions between the United States and its allies about possible military action, they said that governments would be reluctant to be associated with any armed intervention by the United States. "A U.S. request for support would create acute political problems for European governments, even the closest U.S. allies," an official said in London.

Although European diplomatic support for the United States does not seem to be lessening, Europeans are beginning to voice criticism of the U.S. bargaining position. Some officials hint at possible U.S. compromises — for instance, acceptance of an international tribunal to examine Iranian claims to recover part of the deposed shah's personal wealth. European media frequently refer to the "U.S.-Iranian crisis" — language that blurs the Carter administration's attempt to keep the conflict sharply focused on the Iranian illegal seizure of U.S. diplomatic personnel.

Although many influential European newspapers have urged strong support for the United States, diplomats said that U.S. interests appeared best served if European countries continue to avoid a confrontation with Iran and maintain diplomatic pressure for the hostages' release.

Even European officials who praise President Carter for his assured handling of the problem note that he committed the initial mistake of allowing the shah to enter the United States. "That misstep galvanized all the latent anti-Americanism due to excessive U.S. involvement with the shah under successive administrations," a French official said.

A Worse Mistake
Referring to U.S. threats of military reprisals, several officials said that it would be a worse mistake than letting the shah into the United States.

Despite the pressure of U.S. public opinion for rapid action, European officials said that the Carter administration has no quick options likely to succeed.

Echoing official British policy, David Watt, director of the Royal (Continued on Page 2, Col. 4)

Iran Unveils Findings on Finances of Shah

By Edward Cowan and Jeff Gerth

TEHRAN, Nov. 27 (NYT) — In an effort to put pressure on Washington to extradite Mohammed Reza Pahlavi, the deposed shah, Iran began last night to publicize some of what it said were the findings of an investigation into the financial dealings of the shah, his family and associates.

Ali Reza Nobari, 32, the new head of the Iranian central bank, told U.S. correspondents that his staff had found the records of almost \$800 million in loans to the shah's two sisters and their associates by 12 commercial banks in Iran, none apparently U.S. controlled.

Mr. Nobari said he would make public documents from the commercial banks' files that would show that the loans were larger and their terms more generous than ordinary commercial borrowers could have obtained.

Mr. Nobari said the loans were but one of many strands of a tangled web of transactions in Iran and abroad, and in his opinion, constituted only a small fraction of the wealth accumulated by the shah and his family during his 37 years as ruler of Iran. "Most of the money did not come from the loans," he said.

Examination Prohibited
He displayed what he said was a summary, in Persian, of loans made by commercial banks to the shah's sisters and companies controlled by them. The correspondents, however, were not allowed to examine the documents.

He also displayed photocopies of what appeared to be wire transfers on behalf of the shah's family from banks in Iran to banks abroad. Banks use such communications to shift funds, on customers' orders, from one country and one currency to a different currency in a foreign bank.

Of the 12 banks that made the "questionable

\$800 Million in Loans To His 2 Sisters Cited

most of those documents" about the finances of the shah's family "have been destroyed" by bank officials who were involved.

Mr. Nobari said the Iranian authorities were investigating possible payments to the Pahlavi family of "commissions on arms sales," what he called "transfers to associates" and what he portrayed as a probability that the shah had sent "suitcases full of cash" out of Iran. In these areas, the central bank and Mr. Nobari have little or no investigative responsibility and he offered no documentary evidence.

He also confirmed that the government was investigating the financial affairs of the Pahlavi Foundation, a combination family organization and charitable trust established by the shah that had extensive industrial and financial holdings.

Many Iranians and some foreign analysts believe that the foundation served as a conduit for the shah's personal enrichment. Its holdings have been estimated at \$2.5 billion, a figure that suggests annual income of tens of millions of dollars and possibly much more.

Disclosure Encouraged
Mr. Nobari said that the Iranian government was making information about the shah's finances public because it believed U.S. citizens knew little about the way Iran had been governed by the shah or the extent to which, in the view of the revolutionary government, the shah had taken public money. Educated Iranians outside the government have expressed a similar view.

The Iranian government was encouraged to disclose the information as soon as possible by James Abourezk, a Washington lawyer and former Democratic senator from South Dakota, who arrived here Sunday.

Mr. Abourezk represents Iran in civil litigation (Continued on Page 2, Col. 3)

Brown Forms Group That Could Fight Son

LOS ANGELES, Nov. 27 (UPI)

—Former California governor Edmund Brown has announced the formation of a political study group, but said that he would not campaign for his son, the present California governor and announced Democratic presidential candidate. In fact, Mr. Brown said yesterday, the group might oppose Gov. Edmund Brown Jr. on some issues.

Chase Reduces Prime to 15 1/4%

NEW YORK, Nov. 27 (IHT) — Chase Manhattan Bank today accelerated the decline in U.S. interest rates by dropping its prime lending rate a half-point to 15 1/4 percent.

The decrease by the third-largest U.S. bank leapfrogged the quarter-point cut made by two large banks yesterday, but other banks have held fast and analysts are uncertain whether the move signals the start of the long-awaited decline in record-high interest rates.

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Legal Barriers Are Formidable

Iran Quietly Tries to Get Swiss Holdings of Shah

By Iain Guest

GENEVA, Nov. 27 (IHT) — In marked contrast to the way it has flouted international convention by supporting the taking of U.S. hostages and canceling debts, the Iranian government is attempting to recover the shah's fortune in Switzerland without a hint of threats and with due regard for the frustrating legalisms of Swiss banking secrecy.

The campaign is being conducted by two Swiss lawyers acting for Iran and it received its worst setback yet last week, when the cantonal government of Grisons refused to yield documents relating to the purchase of the Villa Suvretta, at St. Moritz, which Mohammed Reza Pahlavi, the deposed shah, bought in 1969.

This action upheld a decision by the local property registry office in St. Moritz this summer. Both ruled that the shah's privacy should remain undisturbed until courts had proven that the villa was bought with funds acquired illegally.

The 28-bedroom villa, whose market value is put at more than 4 million Swiss francs (\$2.42 million), is the most visible part of the Pahlavi family's Swiss assets and observers here feel that its confiscation would be a major boost to efforts to recover his global fortune, which some put as high as \$15 billion.

Embassy Disappointed

Gholam Farivar Ali Tehrani, the Iranian ambassador in Bern, said yesterday that he was disappointed at the decision and that it would be appealed before a Swiss federal court.

"It would be magnificent if the shah's fortune could be returned to Iran," said Mr. Farivar, who served for eight months as minister of industry in 1961 before resigning in opposition to the shah.

Venezuela Cuts Oil Estimates

LONDON, Nov. 27 (IHT) — Venezuela expects to produce less than 10 percent of its recently announced heavy oil deposits, an official of the national petroleum company, Petroleos de Venezuela, said here today.

Initial reports said that production might reach 500 billion, but the official explained that less than one-tenth of the oil in place — estimated at between 700 billion and 2 trillion barrels — can be recovered.

The first project — which is expected to provide 120,000 barrels a day — will come on stream in the mid-1980s and produce oil that will be comparable in price on a dollar-per-barrel-per-day basis to oil produced from Canadian tar sands, he said.

Observers here feel that as soon as the two lawyers take the case in the Swiss courts, they will face, as one put it, "a long, frustrating and uphill struggle."

"They will have to present precise information as a first step to having the assets frozen and eventually recovered," the observer said. "But under the Swiss banking law of 1934, secrecy can only be waived if a crime has been proven, and to show that, you need details — it's a vicious circle."

In addition, he said, fiscal crimes like tax evasion and fraud are excluded from the 1934 law. "A vague charge of crimes against Islam would not qualify," he said.



UN Secretary-General Kurt Waldheim speaks to newsmen after a private Security Council meeting in New York on Monday.

Findings Unveiled by Iran Of Probe of Shah's Wealth

(Continued from Page 1)

in the United States, including cases arising from President Carter's freezing of official Iranian assets in the United States and in U.S. banks. "Part of my responsibility is to find out where the shah put his money," Mr. Abourezk said.

Banks File Suits

NEW YORK, Nov. 27 (AP-DJ) — Several banks here moved yesterday to attach Iranian assets held in the United States. In suits filed in a federal court here, the banks charged that the government of Iran and the National Petrochemical Company had defaulted on more than \$1 billion of loans.

The actions followed a declaration Friday by Abolhassan Bani-Sadr, Iran's acting foreign minister and chief economic spokesman, that the country would not pay its foreign debts because they were incurred under the shah's regime. He was responding to the decision here by Chase Manhattan Bank to declare in default a \$500-million loan made to Iran by a syndicate of 11 banks.

In court papers, Morgan Guaranty Trust charged the Chase action on the government loan triggered an automatic default on a \$310-million syndicated loan to National Petrochemical. Morgan's share of that loan was \$25 million, according to the papers filed in court.

Morgan also told the court that it had lent \$40 million to Iran as its part of the \$500-million credit. The bank asked for a total judgment of almost \$66.5 million, plus interest and collection costs.

In another suit, UBAF Arab

American Bank, which is owned indirectly by a group of French and Arab banks, sought a judgment of \$2 million plus interest and costs to reclaim its portion of a separate \$270-million loan to National Petrochemical by a syndicate of 21 banks.

European American Banking Corp., owned by a consortium of European banks, sought in a suit against two Iranian firms a judgment of about \$8 million for itself and its affiliate, European American Bank & Trust Co.

U.K. Bank Loans

LONDON, Nov. 27 (UPI) — Barclays and Midland have joined National Westminster in the growing line of British banks facing technical defaults on loans made to Iranian government institutions, banking circles said today.

Loans made to the National Petrochemical Bank and Bank Sakhteman totaling more than \$100 million all had interest payments fall due that were not met. The banks, which had no immediate comment, are allowing the Iranians more time to pay the debts.

Europeans Oppose Use Of U.S. Military in Iran

(Continued from Page 1)

Institute for International Affairs in London, said, "This is a case when a great power has simply got to take it. A French official said, 'There is nothing to stop the hostages being put on trial, convicted and sentenced to prison... then we can try to get them freed through diplomatic means.'"

West German officials said that President Carter's best tactic is to maintain a solid international front of diplomatic support for the U.S.

Waldheim Plea at UN

(Continued from Page 1)

Ayatollah Khomeini said yesterday in an interview with the Paris daily Le Monde that countries such as France and Italy must intervene with the United States to dissuade President Carter from launching a military operation against Iran. "We have never insulted or humiliated the American people, whom we profoundly respect," he said. "Our enemy is Carter."

The National Front, a group of moderate Iranian political parties, declared today that the new Islamic constitution of Ayatollah Khomeini will probably lead to anarchy.

In an open letter to Ayatollah Khomeini in the Tehran newspaper, Bamdad, the Front said the course he is following might destroy the results of the revolution. The Front was one of the many factions that joined the uprising against the shah. One of its members, Mehdi Bazargan, was chosen as provisional premier by Ayatollah Khomeini. He and his government resigned earlier this month.

The Islamic constitution will be voted on in a national referendum next Sunday. The Front, while conceding that the constitution "will undoubtedly be approved by the great masses of the people," asked for a postponement of the vote.

Request in 1981 Budget

Carter to Ask More Funds To Rush Troops Overseas

By George C. Wilson

WASHINGTON, Nov. 27 (WP)

In his new defense budget, President Carter will ask Congress to buy the planes and ships needed to deliver and equip a quick reaction force for distant places such as the Gulf, administration officials said yesterday.

The president's fiscal request for 1981 will for the first time make lawmakers decide whether they want a force designed specifically for long-distance intervention.

Up to now, the concept of a force in the Gulf has been a paper proposal. But the Iranian crisis is providing fresh impetus for it, despite the "never again" hangover from the Vietnam era.

Under the president's five-year plan, the funding would start low in fiscal 1981 but rise steeply in later years. It is therefore the policy significance of such a force, rather than the dollars required to fund it, that is expected to dominate the debate in Congress.

Specifically, Mr. Carter intends to ask for down payments in fiscal 1981 of about \$80 million for two cargo ships expressly designed to hold military equipment.

The idea is to give the plane so much range that it could deliver troops, tanks and artillery from the United States directly to the troubled area. The plane could be refueled in the air.

The closest thing the Air Force has to such a plane is the Lockheed C-5, a plane with wings so fragile that they are being rebuilt. Lockheed is circulating a plan for a new version of the C-5, costing about \$70 million each, for transporting the so-called "Rapid Deployment Force."

Once troops of that force were on the ground, they could only fight a few days before running out of ammunition, food and equipment. Mr. Carter's proposed cargo ships full of material would be positioned near the likely trouble spots ahead of time, in the hope of getting supplies to the troops quickly.

McNamara Idea Killed

A similar idea was championed by Robert McNamara, the former defense secretary, in the 1960s, only to be rejected by Congress on the ground that it would tempt the United States to become the world's policeman.

position against the taking of hostages. "It's vital for the Carter administration to do nothing which could lead to the clear moral advantage of the U.S. position," a French official said, adding, "The United States is still a superpower, but it has to find new ways to wield its strength in a climate in which armed intervention will only backfire."

In a discussion of the risk of war erupting from the Iranian crisis on a national television program here last night, French participants were visibly alarmed when retired U.S. Gen. Vernon Walters, a former deputy head of the CIA, mentioned the possibility of a U.S. police action in Iran.

While some European officials supported President Carter's decision to mobilize U.S. forces as a deterrent to preserve the hostages' lives, they opposed any use of force because:

• Planners cannot see how a military operation can succeed. "It must be successful and not just punishment, otherwise innocent Iranians will be killed and lunatics will slaughter Americans and other Westerners," a West German official said.

• It would be counterproductive. "A military intervention now in the Iranian situation would only solidify support for Ayatollah [Ruhollah] Khomeini and, in the longer run, only serve the interests of the Soviet Union," a British official said.

• It would jeopardize Westerners in Iran and in neighboring countries would be threatened if Muslim demonstrators reacted indiscriminately to a U.S. attack on Iran. There are an estimated 1,500 West Germans, 500 British and 1,200 French in Iran. Tens of thousands of Americans and Europeans live in other Gulf states.

• It would destroy the U.S. moral advantage. "If President Carter wants the world to believe that the United States is genuinely changing some of its old interventionist reflexes, this is the acid test," an official said.

In successfully urging the Senate to kill the idea, the late Sen. Richard Russell, D-Ga., warned that "if it is easy for us to go anywhere and do anything, we will always be going somewhere and doing something."

But several members of the president's National Security Council have been arguing that the United States must not remain inhibited by its failure to intervene in Vietnam. Instead, goes this argument, the U.S. military must be equipped to influence events in areas outside NATO, which has been the focus since Vietnam.

As planned, the Rapid Deployment Force would not be a new army. Instead, it would be composed of existing units designated and equipped to respond to an emergency.

One plan calls for the Marines to contribute a "fly-in element" of about 4,000 troops and supporting aircraft; the Air Force would contribute 12 squadrons of fighters and light bombers; the Army would contribute the 82d Airborne Division, an armored brigade from Fort Hood and a mechanized division from Fort Carson.

The size and composition of the Rapid Deployment Force would be tailored to the emergency.

Gen. E.C. Meyer, Army chief of staff who helped plan the Rapid Deployment Force, has been complaining about the lack of planes to deliver it.

"It doesn't do any good to rust out at Fort Carson," he said. "To go somewhere and do something, we have to be taken there."

The new C-5 cargo plane for delivering the Rapid Deployment Force would enter the development stage in fiscal 1981 with the \$80 million that Mr. Carter has earmarked for that year.

Alstom Strikers Return in France

BELFORT, France, Nov. 17 (UPI) — Work was proceeding normally today in the Alstom industrial equipment factories here after a 58-day strike had prompted the management of the parent group, Compagnie Generale d'Electricite, to grant the 7,000 workers substantial wage increases.

The workers started returning to work yesterday after approving the new labor contract drafted with the help of the government. More than 75 percent of the employees endorsed the contract, which granted them 13 months of salary a year and generally adjusted upward the wage scales.

The walkout, backed by most white collar workers, had become a test of strength between unions and the powerful CGE group, whose leaders said the settlement cost the firm 26 million francs (\$6.5 million) a year in the Belfort factory alone.

Rebels Hide in Catacombs As Saudis Search Mosque

From Agency Dispatches

RIYADH, Saudi Arabia, Nov. 27 — Muslim fanatics who seized the Grand Mosque of Mecca a week ago held off Saudi forces today in the catacombs beneath the mosque, Saudi officials said. Press reports said that the renegades still held a few hostages.

The Saudi information minister, Mohammed Abdo Yamani, said that security forces "control all exits from the mosque's basement and are moving gradually to arrest the dissidents and hand them to court for trial."

Press reports said that some of the gunmen were believed to have escaped and may still be holding hostages outside the mosque.

The armed Muslim militants have retreated to the catacombs of the mosque to make their stand against the Saudi troops, Saudi reporters in Mecca said.

There were conflicting reports about the fate of the leader of the rebels, identified as Mohammed Abdullah, a 27-year-old theology student, whom the Saudis said proclaimed himself the new Mahdi (messiah) when he and between 200 and 400 followers burst into the Mosque last Tuesday.

The newspaper al-Jazirah said that Mr. Abdullah was among those hiding in the basement of the mosque, trapped by security forces who did not want to harm the "few hostages" the gunmen still held.

The newspaper said that the

Vance Seeks to Soothe Kissinger After Criticism From White House

WASHINGTON, Nov. 27 (WP) — Secretary of State Cyrus Vance yesterday sought to smooth the feathers of his prodigy Henry Kissinger, after they were badly ruffled by reports of criticism from unnamed members of the Carter administration concerning Mr. Kissinger's role in the Iran crisis.

Last week, Mr. Vance invited Mr. Kissinger to visit the State Department yesterday for a full briefing on the situation in Iran. During that 75-minute meeting, administration sources said, Vance sought to calm Mr. Kissinger, who was described as angry by an article in Saturday's Boston Globe.

The Globe quoted "a high State Department official" as saying that Mr. Kissinger threatened to "hold the Carter administration accountable for the death of the deposed shah if the exiled ruler was not permitted to come to the United States for treatment."

This account was denied yesterday, both by Mr. Kissinger and senior administration officials. They noted that Mr. Kissinger was traveling at the time the White House decided to allow the shah into the United States for medical treatment, and they said that he had no contact with the State Department or the White House on the matter.

(Earlier, Mr. Kissinger did press the administration repeatedly to allow the deposed shah to enter the United States.)

Islam Fury Makes Turkey Jittery About Pope's Visit

(Continued from Page 1)

does not approach the level of that in Iran, there have been some early signs of such revivalism, although overt expressions of it usually are kept in check by the martial law that prevails in many parts of the country.

So far, Necmettin Erbakan, leader of the Muslim fundamentalist National Salvation Party, whose support Mr. Desires needs, has been cautious enough out of fear of arrest not to openly call for an Islamic revolution. But last Saturday in a demonstration in Kysid, several thousand supporters of Mr. Erbakan openly chanted for an Islamic republic, diplomatic observers noted. Moreover, participants in a recent anti-American demonstration at the U.S. Consulate at Izmir were said to have included a number of Iranian students from an Islamic seminary.

But the fundamentalist Shia sect of Islam, unlike in Iran, is a minority of 10 to 15 percent of the population. And members of the Shia offshoot here, Alevis, are more modernized and far less devout than their counterparts in Iran.

The dominant Sunnis are broken into numerous sects of varying shades of ideology, but they also tend toward secularism and many of them regard Ayatollah Khomeini as an aberration.

Moreover, Turkey does not have the religious infrastructure that made the Islamic revolution possible in Iran. When Atatürk launched his modernizing reforms in the 1920s, he dismantled the religious hierarchy by institutionalizing it within the government, so that government-salaried religious leaders have not been able to accumulate the influence and power that they have in Iran.

Partly for these reasons, the United States does not find itself in a situation even remotely as precarious in Turkey as in some other Muslim countries. When the State Department yesterday announced a

withdrawal of nonessential troops and dependents from Muslim countries, Turkey was on the list.

An embassy source said that this was because the government had absolute faith in the government's readiness to take over and some confidence in large demonstrations against the embassy were unlikely in the United States intervened in Iran.

Pope Meets Jordan King

VATICAN CITY, Nov. 27 — Pope John Paul II met Crown Prince Hassan ibn Jordan in a private audience the Vatican announced.

U.S. Warns On Travel

(Continued from Page 1)

cause of the attack on the in Islamabad, Pakistan.

The State Department's man, Hocking Carter 34, travelers' advisory issued "temporary and prudent" as the situation worsened continually.

A spokesman said one of the voluntary reduction of the Islamic countries was to make it easier for the host country to its responsibilities of security for American citizens.

Another official said a national reason for the action was to provide a smaller target for an attack, should President Carter take military or economic action against the Iranian leaders.

"In light of recent events in the area, we have taken a few steps to minimize the risk," a spokesman said.

He said the embassies in the area, we have taken a few steps to minimize the risk," a spokesman said. He said the embassies in the area, we have taken a few steps to minimize the risk," a spokesman said.

Atom Explosion Now Ruled Out In Atlantic

WASHINGTON, Nov. 27

— The State Department said today that a New Zealand story has revised its finding, evidence of a nuclear blast in the Southern Hemisphere, and its mystery about a possible atomic explosion persists.

A U.S. Vela satellite detected the characteristic double of an atomic explosion of what appeared to be such an explosion in September. But the Department was unable to corroborate the findings with any evidence.

Earlier this month the New Zealand Institute of Nuclear Science said that it had discovered radioactive debris in rainwater indicated a recent, relatively atomic explosion in the Southern Hemisphere.

However, the State Dept. said yesterday that the Institute reversed its earlier assessment, has released a statement. "There is no evidence of radioactive fallout during the three months."

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Trying to Catch Up

U.K. Unions Lead Europe In Seeking Shorter Hours

By Bhushan Bahree

LONDON, Nov. 27 (AP-DJ) — British labor unions are beginning to score successes in a battle with employers over working hours, thus pushing them into the forefront of a European-wide struggle for a shorter workweek.

The first significant breakthrough came earlier this autumn when engineering workers won down employers' resistance with a series of debilitating strikes, winning an agreement that, among other things, provided for a 39-hour week from Nov. 1, 1981, down from the current 40 hours.

The latest union victory was an agreement reached Friday with the Ford Motor Co.'s British subsidiary covering 59,000 manual workers. The company offer, which the union negotiators are recommending to their membership, includes a commitment by Ford to begin meetings with the unions next year to draw up a timetable to help reach agreement on how a reduction in working time can be achieved.

The British unions' achievements are not lost on the European labor movement. At the European Trade Union Confederation in Brussels, an official said that "the engineering agreement in Britain opened the door... It may have given labor in the United Kingdom a sort of symbolic head start over some other countries."

10-Percent Cut

The broad objective that the ETUC is pursuing is a 10-percent reduction in working hours, but it is leaving the specifics of how that is to be achieved to the individual unions in each country. The confederation official said that "Britain, France, Italy and Germany are all going for a 35-hour week, while Belgium is aiming for 36 hours."

The demand for a shorter work week is meeting stiff resistance from employers because the unions are not offering to do the same amount of work in a shorter period of time — that is to say, to boost productivity. Rather, the aim is quite the opposite. Throughout Western Europe, union leaders are convinced that the only way unemployment can be cut in the face of a depressed outlook for economic growth is by "sharing" the work available. Companies agreeing to cuts in work hours will have to hire more workers to maintain the same level of output, they argue.

The employers disagree. The Confederation of British Industry, Britain's main employers group, argues that shorter work hours mean higher costs that can be offset only by higher production. But it acknowledges that this then would reduce the scope for increased employment, the unions' main aim.

In a paper on the issue, the British group argues that a "reduction in hours is either likely to be made up by extra overtime or lead to lost output, both of which increase costs without additional employment."

A major worry of the employers is that unless the move toward shorter work hours is coordinated in European countries, it will put industry in particular nations at a disadvantage if their unions gain their objective before others. The CBI notes that "although individual initiatives have been taken in Belgium, and to a lesser extent in the Netherlands and West Germany, there is no European coordinated action jointly by unions, employers and governments."

This problem of competitive costs is recognized by the unions. Acknowledging it, Mr. Murray says that "in the European Trade Union

Confederation, we are all united in saying that a start has to be made in all countries. And we are making plans now for a campaign of united action."

To support their claim for shorter working hours, the Ford unions listed the following international developments to show management that they in Britain would not be going far out alone:

• In Belgium, there has been a significant shift toward a shorter work week. Chemical, oil and public service workers have all "breached the 40-hour dyke" and about one third of all Belgian workers have benefited so far.

• In Germany, metal workers have been offered six-week vacations, earlier retirement and extra time off for shift-workers and older employees. A strike by 2.7-million metalworkers was settled with this offer in response to union demands for a 35-hour week.

• In France, the 40-hour standard is being eroded. Employers are offering longer vacations, new shift patterns, or overtime instead. They have turned to a concept of an annual hours budget from bargaining about standard work weeks.

The list goes on, citing changes in Japan and the United States to support the case for shorter working time.

Part of the British unions' case for shorter work time rests on data that shows that the British worker puts in more time than other European workers, and that the difference has been growing in the last four years. Thus, the TUC cites ETUC data showing that the industrial worker in Britain puts in 1,932 hours a year, compared to 1,831 in France, 1,671 in Germany, 1,545 in Belgium and 1,503 in Italy.

Citing data from the Organization of Economic Cooperation and Development, the TUC says that in the period 1976 to 1979, the reduction in work time has been only 0.5 percent in Britain, the lowest in Europe. This compares with a cut of 1.1 percent in Germany, 1.4 percent in Denmark, 1.4 percent in Italy, 1.7 percent in France and 2.1 percent in Belgium.

If British unions are taking a lead gaining cuts in work time now, it is partly because they have fallen behind other European countries.



Marchers in Birmingham, England, demonstrate their support for Derek Robinson (left), a British Leyland union leader who was fired last week. The face on the placard is that of Sir Michael Edwardes, chairman of the company.

British Leyland Workers March To Protest Firing of Union Chief

From Agency Dispatches

BIRMINGHAM, England, Nov. 27 (UPI) — Five thousand employees of the British Leyland automobile company marched through the center of Birmingham yesterday to demand reinstatement of a union leader fired for opposing a company reorganization plan.

The Transport and General Workers Union said it was considering backing the demand for the reinstatement of Derek Robinson, an avowed Communist who is the chief shop steward at Leyland's Longbridge Austin-Morris plant. But tonight, the Engineering Union declined to give official sanction to the strike.

Mr. Robinson, 54, was fired last week after 38 years at the factory for helping publish a booklet calling for sit-down strikes to block implementation of a company plan that would reduce the labor force. Leyland workers approved the plan in a vote held early this month.

British Leyland Chairman Sir Michael Edwardes has threatened to resign if Mr. Robinson is rehired.

Leyland today said about 17,500 of the company's total work force of 165,000 are still on strike over the dismissal, compared with 22,000 yesterday, with workers at 5 of its 36 plants still out. At Longbridge, 4,000 are working on the day shift compared with 3,000 yesterday, while 5,000 are still on strike, it said.

Forcing 30%-Devaluation of the Rupee

Sugar Slump, Inflation Jar Stable Regime in Mauritius

By Pranay B. Gupta

PORT LOUIS, Mauritius (NYT) — The "dual season" here, the Hindu festival of lights, is traditionally celebrated with gaiety by the large Indian immigrant population. Gifts and sweets are exchanged, firecrackers are exploded, and Moslems and Christians join in the revelry.

But this diwali season, Mauritius, an Indian Ocean country of 900,000, was in an economic and political crisis that raised questions about the stability of the government of Sir Seewoosagur Ramgoolam.

Faced with double-digit inflation, mounting losses in the sugar industry, the country's mainstay, and inadequate foreign aid, Sir Seewoosagur was recently pressed by the International Monetary Fund to do something that appears to threaten his government — devalue the Mauritian rupee 30 percent.

"We had little choice in this," said the 79-year-old prime minister,

who has been in power since independence from Britain 11 years ago. "We have had severe economic difficulties, foreign-exchange problems and a shrinking favorable balance-of-trade situation. The IMF has promised further help. We are hoping that devaluation will discourage unnecessary imports and make it possible for our exports to be cheaper."

"We want to make an economic recovery and put Mauritius back on the right track," he said. "We are optimistic about this."

Higher Export Duties

The devaluation, the first since independence, surprised the political and business community, although it had been known for some time that the IMF was urging it. The government announced an increase in export duties for the sugar industry to 17.5 percent from 10 percent. New taxes are also to be imposed on the prosperous hotel and tourism industry, and the bank rate has been raised by 1.5 percent

to 10.5 percent. Sir Seewoosagur said there would be an across-the-board wage increase of 13 percent. The devaluation has brought a sharp increase in the price of such staples as rice, cereals and vegetables. On a recent morning it was virtually impossible to buy rice in the boisterous city market here. "Hoarding," a policeman explained. "The rice will come out when the prices go even higher, as they will."

"We had been telling the government that constant wage increases were dangerous for the economy," said Jacques Koenig, secretary-general of the Mauritius Chamber of Commerce, criticizing the devaluation. "The government has also been unable to tighten import policies. Until now, the Mauritian currency had been stable."

"The devaluation is a disaster," said Paul Berenger, secretary-general of the leftist Mauritius Militant Movement, which has pledged to bring the government down. "There should have been better planning all these years. The government of old man Ramgoolam has been living in a dream world. The government simply failed to adapt to the changes in the economies of the West."

Sugar Plunge

Mr. Berenger was alluding to rapid fluctuations in the world sugar market that have hurt the Mauritian economy. In 1974, at the height of the sugar boom, world prices were

more than \$1,200 a ton. Starting in 1975 they plunged to around \$300 a ton, which is about where they are now.

But the government continued to grant wage increases, allowed costly large imports of luxury items, and increased government spending on free primary education and health services. Wages have tripled in four years, raising per-capita annual income to almost \$800 while fueling inflation.

The authorities say inflation has been about 10 percent a year, but most private economists put the true figure at 30 percent or more. The trade deficit is believed to be at least \$100 million, and foreign-exchange reserves are now said to be about \$15 million. Mauritius must import almost all its food, including 80,000 tons of rice a year.

Sugar accounts for more than 70 percent of the national income. The government's plans to diversify agriculture, strengthen the tea and tobacco industries and push light industry have had only modest success.

"We would have much preferred a wage freeze," said Theodor Magrot, estate manager of Belle Vue Sugar Plantations in Mapou, one of the country's biggest sugar manufacturers. Mauritius is expected to export 685,000 tons of sugar this year, of which 500,000 tons will go to the European Community under a past agreement for almost \$450 a ton, considerably above the world market price.

Bombs Injure 13 in Ulster; Christmas Offensive Feared

From Agency Dispatches

BELFAST, Nov. 27 — Shops, offices, hotels and two trains were damaged in a bomb blitz in Northern Ireland that police fear could be the start of a Christmas offensive by the Irish Republican Army.

The IRA's Provisional wing claimed responsibility for the blitz in a statement today.

The IRA, which is fighting British rule in Ulster, hit targets in 10 cities and towns in five counties at about the same time late yesterday, shouting a warning so that people could be cleared before the explosions, police said. Police said 13 persons, including two British soldiers, were injured in 30 explosions during the seven-hour wave of bombings.

Belfast bore the brunt of the attack, the worst in Northern Ireland for several months. One of the few large remaining hotels in the city, the Chester Park, was gutted by a large fire started by three bombs in the foyer. "No one was injured. Within minutes, a large supermarket, the offices of an insurance company and an electronics store also were hit. Several other bombs were found and defused."

In Lurgan, three persons were injured in an explosion and in Omagh four civilians and two British soldiers were injured when a car bomb exploded.

A bomb on a train at Belfast Central station that was bound for

Attacks Rise on U.S. Policy on Release of Mentally

By Lawrence K. Altman

NEW YORK (NYT) — As part of a deliberate national reform, hundreds of thousands of mental patients have been discharged from the nation's psychiatric hospitals in the last two decades. The policy grew out of the belief that mental institutions were doing as much harm as good.

But this shift of patients into the community has come under attack from political, professional and community leaders who see it as ill-conceived, inadequately carried out, poorly monitored and, in a society giving mental health low priority, a subject of disproportionate fiscal restraint.

A panel reporting to President Carter's Commission on Mental Health noted that "it is now widely acknowledged that deinstitutionalization has, in fact, often aggravated the problems of the chronically mentally disabled."

"All too commonly," the report said, "no one reviews the requirements of the disabled persons to assess whether hospitalization or community care is more appropriate for their level of functioning."

Psychiatrist James Prevoost, New York State's mental health commissioner, acknowledged that the post-hospital care system was insufficient, partly because of professional mistakes. His office, he said, is seeking legislation requiring broader follow-up planning for patients with mental illness.

In addition to the lack of planning, Dr. Prevoost suggested, the movement away from institutions may have gone too far too fast. "People rushed pell mell away from the 'snakepit,' the notion of the asylum," he said. "They forgot that there were some good aspects — the sense of belonging, the structure, protective living that was not provided in the community."

Conspicuous Victims

Conspicuous victims of the absence of the structure are the thousands of mentally troubled patients who have come here and to other U.S. cities, where they strain shelters, proprietary adult homes, single-room occupancy hotels and other facilities not designed with their care in mind.

The current approach began almost unnoticed, as a part of a growing antipathy toward mental hospitals. As a result, the population of U.S. psychiatric hospitals has been reduced by about two-thirds, from

558,922 in 1955 to 191,000 in 1975, the latest year for which figures are available.

The policy grew out of a convergence of ideas and trends: Changing views of individual rights and civil liberties, newer concepts of psychiatric care, court rulings, fiscal pressures and expanded coverage of psychiatric illness by health insurance companies.

Even now, many psychiatrists are sympathetic to the movement against institutionalization, and they fault the implementation more than the policy itself.

The movement was based on the notion that lengthy hospitalization and dependency on institutions was a major factor in perpetuating disturbed behavior and that the community approach represented the least restrictive — and thus, somehow, the most wholesome — environment. There was the widespread feeling that many patients were simply stored away in institutions where they got little or no treatment and where their civil rights were abrogated.

Dr. Robert Cancro, head of the psychiatry department at Bellevue Hospital and New York University, said, "The tragedy now is that we turn away people who belong in the hospital. Instead of admitting those people who are most treatable, we have to take those who are most disturbed and violent."

In his view, "virtually everyone we turn away" could benefit from psychiatric care at the hospital.

Can't Cope

According to doctors who see them frequently, many of those discharged from mental institutions have been unable to cope with the basics of everyday living — finding shelter, coming up with the money to feed and clothe themselves and are often unable to prevent such trivial things as cuts from becoming festering sores.

When their actions become flagrant, they are brought, usually by the police, to a hospital. Soaring readmission rates indicate the high turnover of patients who are treated briefly and then released again — in accordance with the current policy.

The concepts of deinstitutionalization and community mental health were formalized in 1961 in a congressionally mandated report of the Joint Commission on Mental Illness and Health. The report became a blueprint for President John Kennedy's program of community mental health centers, announced in 1963.

"When carried out," Kennedy said, "reliance on the cold mercy of custodial isolation will be supplanted by the open warmth of community concern and capability."

The policy took account of advances in new drug treatment that made it possible to help many people get over acute episodes of psychotic behavior, although no cure has yet been found.

The Kennedy approach was followed by federal court rulings that mental patients should be treated under the least possible restraint. The promise was that by 1980, there

Burma Thieves Take Jewels From Statues

RANGOON, Burma, Nov. 27 (UPI) — Thieves broke into a museum in Mandalay and stripped gold and antique jewelry from statues of Burma's last two kings, the government said.

Police officials in Mandalay, 430 miles north of Rangoon, said the museum was burglarized Friday night by several thieves who escaped with more than 320 jewelry pieces made of gold and other gems. The jewelry adorned the statues of King Mindon and his son, King Thibaw, who reigned in the 19th century.

would be 2,000 such centers in the country. There are now about 700.

A major problem, as Dr. Cancro and others see it, is that patients scattered to communities seem to require an even larger cadre of professionals than was needed when the patients were concentrated in a single institution.

Basis Too Broad

Some critics contend that, not only was the basis of community mental health centers too broad, but also that political and psychiatric leaders promised too much and raised false expectations in creating them.

Critics also cite statistics published by the National Institutes of Mental Health showing that there has been no change in the percentage of the population that live in institutions. These critics contend that the community mental health policy has not led to deinstitutionalization, but rather to a policy of

transinstitutionalization, of formerly hospitalized patients moved to nursing homes.

As the concept of community mental health, as well as a case balance between civil and the need for custodial care, re-examined, remedies to current problems are sought — so far with no answers. Many experts assert that the problems will be more than additional funding suggest that there is pervasive apathy toward the plight of the mentally ill.

They also say that social problems involved are more than medical or psychiatric would require improved vocational support and prevention. Accordingly, leaders, the problems cannot be by psychiatrists or the medical profession alone, but will require attention of political leaders.

Obituaries

Harry Abrams, a Pioneer In Publishing of Art Books

NEW YORK, Nov. 27 (NYT) — Harry N. Abrams, 74, a pioneer in the popularizing and publishing of quality art books, died Sunday night in New York.

As head of the house that bore his name and which he established in 1950, Mr. Abrams combined a flair for merchandising art books and a serious responsibility for both the quality of the reproductions and the text that accompanied them.

Among the first to devote himself solely to the publication of art books, he deplored what he called "portfolios of pictures," saying that he had always held out for lots of text written by eminent scholars.

Among the titles he published were "A History of Modern Art" by Sherman Lee, an orientalist; "Art Treasures of the Louvre," by Rene Huyghe, the museum's curator in chief, and "Paul Gauguin," by Robert Goldwater, a professor of art history at New York University's Institute of Fine Arts.

As for the quality of the reproductions, he once said: "I was dissatisfied with the art books on the market. The booksellers liked the sparkly, hyped-up ones rather than ours, which looked like the painting. Bernard Berenson said we had the best art reproductions of any publisher."

Mr. Abrams was born in London, and emigrated with his parents to the United States in 1912. He attended Manual Training High School, the Art Students League and the National Academy of Design. In 1926 he obtained a non-salaried job at Schwab & Beatty, an advertising agency. Through the agency, he came to the attention of Harry Scherman, who had founded the Book-of-the-Month Club. Mr. Abrams was hired as art director of the new enterprise and he soon began to use art reproductions in the publications of the club.

In 1949 he decided to publish his own books and left the book club. He started his company with \$100,000, a sum that was, he later said, wholly inadequate. "The only way we survived," Mr. Abrams said, "was through our friendship with shippers, printers, binders." He called them the unsung heroes of the publishing world. It took his company five years to break even, but by 1958 he was considered the largest U.S. publisher of art books, with more than 200 titles in print. He had sold 50 million individual color reproductions.

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Frenchman's Love

After Eating

Snails at Dal

From Agency Dispatches

NANCY, France, Nov. 27 (UPI) — Snail-eater Marc Quinquand, 77, has died in a hospital after an exhibition period of hospital officials said yesterday.

Mr. Quinquand, who weighed 167 kilos (about 368 pounds), lost consciousness yesterday night after eating 72 in three minutes at a dinner.

Friends said that Mr. Quinquand had swallowed record total of 144 snails in minutes last July in Paris. "This account, and that he was training, establish a record next year."

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Bell System

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Mental

As the concept of mental health is examined, it is found that the need to be examined is not a problem.

They also are not a problem. Many more than the public would like to know about the problems of mental health.

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Olivier Has Little Bite In Toothless 'Dracula'

By Thomas Quinn Curtiss

PARIS, Nov. 27 (IHT) — As Laurence Olivier is indisputably the greatest English-speaking actor in practice, something should be done to bail him out of the sort of movie assignments he is being given. Recently he has been the victim of an increasingly shoddy and weird casting process that would require a character player, he is being asked to speak only various words of broken English for which he must disguise his splendid voice by a posh, almost unrecognizable, muffled and precise diction, all the very junkiest filmfand that Hollywood has disgorged of late.

"Marathon Man," he was a Nazi dentist, in "A Little Romance" a funny Frenchman, and in a Bessy, an American automobile salesman who looked like John D. Rockefeller at the age of 97 and like Frank Morgan.

All this bodes no good. Certainly Olivier's stature should be a living card, be entitled to parts of him. George Arliss, a far more actor to Olivier, when at his present age, signed up for roles to be afforded roles suited to his personality. Diaries, Alexander Hamilton, Richelieu, Rothchild and Wellington.

"Dracula" (at the Bouffes du Parc) is the Paramount City Triomphe of the English, a "straight" John Veron, play confectioned from the old Stoker's novel, a novel that is a masterpiece of the genre. Shakespearean celebrating the film of the Hamilton Deane-John Veron, play confectioned from the old Stoker's novel, a novel that is a masterpiece of the genre.

Marcel Proust off from the classics with a bloodsucking count of pathos, a role he might touch upon the suave, humorous irony he is spun half a century ago. But he is Dracula at all instead he imitates, again with dialect-accents, a Dutch savant, cognizant of his own weakness, who ride the hamster of his own weakness.

He is a master of every theatrical trick, of course, brings it off with greatest director, but why was he over and over with this stuff.

He began his film for this latest "Dracula," it is with "Rose de France" and commonplace. A more major film includes a solemn remake of the initial task.

"Dracula" adaptation with Bela Lugosi, who was a star on TV, it seems uncalled for. The film is quite unnecessary. It is not an improvement on the earlier film, it is a rehash of one of Browning's best, and the film of the 1930s, which is the film of the 1930s.



Laurence Olivier in "Dracula."

instructed to watch exotic dances and one recalls Nietzsche's statement that he could only believe in a god who could dance. Dance seems to have become a ritual of Gurdjieff's creed — a means of attaining harmony with the infinite — and it is said that by hypnotism he could freeze his swiftness of movement to maintain set poses for long periods.

The theme and the picturesque setting are pleasingly novel, but the film itself makes little dramatic progress. The repertoire of dances has insufficient variety; the dialogue, partly highfalutin, provides no discernible message; and the performances, although competent, are troubled by the stilted script.

The Brook adaptation, filmed in Afghanistan, covers Gurdjieff's formative years. First there is Mikhael Dimitrijevich, the boy Gurdjieff, eager for words of wisdom from his father and the village elders. Then we have Dragan Maksimov as Gurdjieff grown to manhood and undertaking excursions to remote realms to gain spiritual knowledge. On occasion he encounters a Slavic prince (Terence Stamp) also on the hunt for enlightenment. The two prick up their ears to catch the priceless sayings of their teachers, but all one hears are rather muddled platitudes. They are

Andrei Mikhailov-Kontchalovski is a young Russian director, representative, it would seem, of the contemporary Soviet cinema. His film "Sibiriade" (at the Paramount Montparnasse and the Marivaux in its original version) was selected for competition in the Cannes festival and was awarded the jury prize. A three-hour chronicle of social change in the wilds of eastern Russia between 1915 and the 1960s, it is in the epic form, but mimes the abrasive preaching that has marred so many movies from Russia.

It is in its approach rather than in any novel technique that the film

Bill Evans: 'Playing for Young People'

By Michael Zwerin

PARIS, Nov. 27 (IHT) — It is not necessarily true that only low common denominators can be commercial. There are such things as high common denominators. We all have nervous systems, where music lives, in common. Music goes up and down. Volume, repetition or schmalz are not the only ways to reach that place.

In listening to Bill Evans at Espace Cardin last night, it was particularly obvious that virtuosity, taste and modesty can do the trick as well. Although Evans recently signed a lucrative contract with Warner Brothers Records, it was for nowhere near the sum accorded rock groups of similar stature. Espace Cardin only holds 400 people, so we are not talking about a common denominator on the order of Supertramp, for example, which packs in 10,000 customers every night.

But the youth of Evans' audience is striking; he is not only reaching nostalgic fans. Asked about it afterward, he said: "I'm playing for mostly young people now — I figure close to 75 percent. I don't know why that is, except possibly, in general, a lot of the people who started listening to rock when they were teenagers don't find enough there to satisfy them as adults. Also I've noticed that young people these days are interested in the entire spectrum of jazz. They are no longer limited to what's happening right now, the latest hip thing, like when I was starting to play. Jazz is old enough to have a history and young people these days pick the styles they prefer, like with classical music."

Evans figures as much in the history of jazz as anybody active today. He was with the Miles Davis quintet of the late 1950s, and recorded "Kind of Blue" with Davis. He is on more than 50 record albums — with Tony Bennett, Stan Getz, Jim Hall, Kenny Burrell, Toots Thielemans and many others — but his own trio constitute his real contribution and reflect his personality.

Evans has led a trio for 20 years, and its early recordings with Scott LaFaro on bass and Paul Motian on drums are classics. His trios have become one of the principal models for instrumental jazz; he is the quintessential trio pianist.

He says a trio is "what I always wanted. It's pure. I can control and shape my own music better without



Pianist Evans: A trio is "pure."

a horn, which tends to dominate things."

His current formation is as good as any he has had. Mark Johnson, a young bassist who left Woody Herman's band to join Evans, is one of the few who can get an exciting sound on an acoustic instrument without resorting to amplification gimmicks that imitate electrical textures. Joe La Barbara's drumming, particularly his brush work, is perfect for Evans' loose sense of time.

The result is like a hot tub — a most interesting soak, at that. Evans' music surrounds, soothes, penetrates and leaves you feeling clean.

Evans turned 50 this year, but his approach to improvisation has not changed much in the 25 years he has been in the business. He has managed to stay youthful while maturing, to be both of his time and timeless.

An author was once asked what century he would choose to live in. He answered: "The 18th century with penicillin." And, we might add, with Bill Evans.

Bill Evans trio: Barcelona, Nov. 28; Geneva, Nov. 29; Turin, Nov. 30; Reggio, Dec. 1; Palermo, Dec. 2; Stuttgart, Dec. 3; Lyons, Dec. 4; Koblenz, Dec. 5; Hilversum, Netherlands, Dec. 6; Groningen, Netherlands, Dec. 8.

Arts Agenda

PARIS — The 100th concert in the Concerts de l'Orchestre de la Ville de Paris, on Dec. 2 at 11 a.m., will feature Jean-Louis Bernadot, the conductor Michel Portal and the pianist Jean-Claude Fournier. The program will include works for piano and orchestra, including Beethoven's Sonata (Opus 120) and Four Pieces from Opus 5 by Berg, as well as solo works for the two instruments and made recited by Bernadot.

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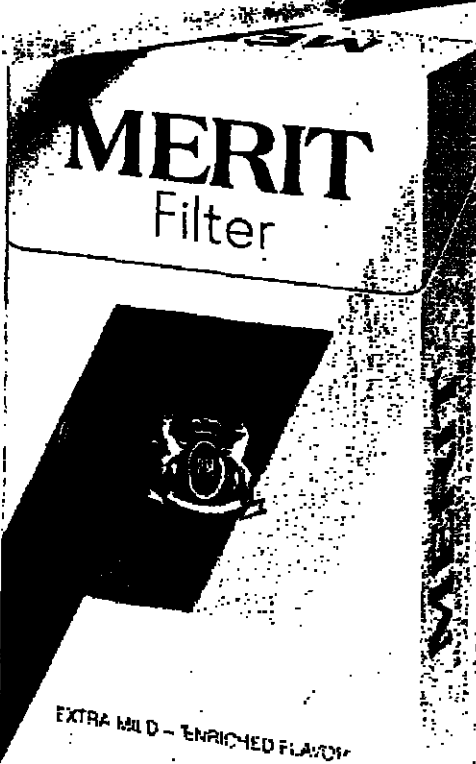
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MERIT

London's Low Priest of Clean Design

By Geraldine Plucencke

LONDON (IHT) — "I think it's a human trait that people are

...and greedy." Terence Conran rolls the double "e" over his tongue, savoring vowel and idea, grins inventively.

At certain times in my life I've moved into a new house or flat and been empty and I've thought, "How lovely!" Then your house becomes fuller and fuller — and you ponder, "Oh, God, why have I let all these things creep into my life? I would prefer a white wall, a

...a bare space for a pair of tables, telephones and the rest of the grimy brick walls of a London warehouse.

At 48, Conran is London's low priest of clean design. He operates only a major international design firm, but an international retail — the Habitat and Conran's.

The success of the spare, uncluttered look has filled don houses with good, inexpensive furniture and has made Conran a millionaire.

He created a world that didn't exist before — unless it cost earth, says James Filditch, aish designer and competitor to Conran. "He intuitively found what he wanted."

Elitist Activity.

That, Conran says, was a desire had the clutter of the industrial revolution — a yearning for fewer better things. "William Morris was much concerned with this sort of thing. I think for many people it would — and is."

Conran started designing furniture in a basement workshop shared with sculptor Eduardo Paolozzi in the early 1950s. "Good design was seen as an elitist activity — and expensive," he recalls. Conran had dreams, his training in textile design at London's Central School of Arts and Crafts, and no cash.

So he went to Paris for a two-month stint in its kitchens, then back to London to launch a simple restaurant, the Soup Kitchen. On opening night, he remembers, a band of 42 rumpus sized up its spare look and name and trooped in for a free meal. They got it.

In the early 1960s Conran parlayed three Soup Kitchens into enough cash to open a 40,000-square-foot furniture factory. He developed a line of clean designs that were in sharp contrast to the overblown baroque in most stores and opened his own shop, Habitat, on London's Fulham Road — the habitat in 1963 for Swinging London.

He seized the look: tubular steel, natural woods, pure colors (especially vernal apple green, spurned by older English as un-lucky) and uncluttered crafting.

Debit to Bauhaus

The firm now sells 1 million Habitat catalogs annually and has sold 500,000 copies of glossy Conran edited books on furnishings. Habitat and Conran shops have jumped the Channel, with 10 in France and a pair in Belgium, and across the Atlantic with three U.S. outlets.

A critic says that Habitat's look "sprung out of the Bauhaus, the intellectual debates of the '30s, and was pure-art school stuff of the

REVERSO

The Way You Wear Your Watch...
JAEGER-LECOULTRE
Genève

Spur the Hunt for Energy

It has been known for decades that liquid petroleum is only a drop in the bucket of hydrocarbon fuels beneath the earth's surface. The great attraction of what we commonly call crude oil is that it is easily and cheaply recoverable and refinable. As a result, despite the fact that supplies are rapidly diminishing, oil companies and producing countries have for practical purposes ignored comparatively high-priced alternatives. Shale, tar sands and other forms of heavy oil have been discussed endlessly in energy seminars and experimented with in laboratories and pilot plants, but so far they have not been commercially exploited on anything but a very small scale.

Now, once again, there is talk of developing the Orinoco tar belt in Venezuela. Along with the Athabasca tar sands in Canada, this is the most talked about source of heavy oil in the world. A new paper by a senior Venezuelan oil executive contends that there are at least 70 billion barrels of economically recoverable oil in the Orinoco region. According to a summary of his report, scheduled to be presented at a UN energy conference today, Orinoco oil could be extracted and converted to a liquid that can be processed in existing refineries for between \$5 and \$13 a barrel. What the summary does not say is how many billions of dollars in capital investment it will take to get the tar flowing, although one report suggests about \$20 billion.

Until now, capital investment is precisely what has held back development of these potential sources of Western energy independence. It seems that Venezuela has now calculated that enough investment is warranted to install the technology to produce a million barrels a day from the Orinoco region by the

year 2000. If the Venezuelan judgment is deemed correct by the major international oil companies, it should spur a re-examination of the cost effectiveness of developing other heavy oil sources in the Amazon basin, under the Arctic ice cap, in the Western United States and Canada. Different technologies are involved in all of these areas and the cost will vary accordingly. In each case, however, Western governments should encourage the extraction of this hard-to-get oil.

With the price of contract oil now over \$25 a barrel, spot market oil selling for \$40 or more a barrel, Iranian supplies insecure, Kuwait and Abu Dhabi planning to cut production, Saudi Arabia not really interested in maintaining production at current levels and Iraq and Libya, as always, unstable, it is time the West moves toward energy independence. There is no safe, cheap, pollution-free energy source. Therefore, Western governments should provide incentives for development of a broad range of alternative energy sources, including more oil, which is both relatively clean and safe if no longer cheap.

The best way to do that is to let the price of key oil products rise, especially gasoline in the United States. As soon as the oil companies conclude that they can make money by developing heavy oil they will do it. In the meantime, high prices will stimulate conservation. Instead of returning windfall profits to consumers, they should be spent developing Colorado shale, Orinoco tar or liquid natural gas. If it is politically unpalatable to give the money directly to the oil companies, whose recent profits in some cases have exceeded 100 percent, perhaps President Carter's energy board should manage it. The point is to act now. Oil inflation is not the only inflation. The cost of turning shale and tar to oil keeps going up, too.

INTERNATIONAL HERALD TRIBUNE

Defrosting Human Rights

In 1965, the Senate somehow found the time to ratify the Vienna Convention on Diplomatic Relations. For that, Americans can now be thankful: It is the legal bedrock of the U.S. case against the embassy seizure in Iran. Yet, shamefully, the Senate has never found time to vote on other covenants of a far broader scope addressed to the urgent concern for basic human rights—a concern that President Carter has called "the heart and soul" of his foreign policy.

Four international covenants, all framed with U.S. help, are now before the Senate Foreign Relations Committee. At recent hearings, these treaties won the endorsement of a formidable procession of national organizations, among them the American Bar Association, the AFL-CIO, Amnesty International and leading religious and civil rights groups. Only three out of 50 witnesses were counted as hostile. Yet between senatorial apathy and lukewarm administration lobbying, the covenants are likely to be forgotten again.

Three of the treaties seek to spell out universal standards for civil, economic, social and cultural rights. A fourth is an inter-American convention on human rights. The covenants are couched broadly to transcend the bounds of ideology, in most respects stating principles that Americans take for granted. Some difficulties do arise, as in prohibitions against propaganda for war and racism that might well run afoul of U.S. guarantees of free speech. But these can be avoided by appropriately qualifying U.S. ratification.

Treaties like these have died before in the Senate, in part out of fear that they would open a back door to amending the Constitu-

tion. Such fears have all but doomed the Convention on Genocide, which has languished in the Senate for three decades. But the legal problems have been grossly overstated. Each of the four covenants would require specific congressional action to make any clauses operative within the United States. Hence ratification would not mean the imposition by fiat of alien law. Moreover, to allay all possible fears, the State Department has gone to extreme lengths in proposing reservations. One would, in effect, assure unimpeded freedom for the United States to execute children or pregnant women.

U.S. approval of the covenants can have practical effect. The human rights standards spelled out in the Helsinki Accords of 1975 have turned the spotlight on violations in Eastern Europe. Yet, ironically, these accords also oblige the signatories to adopt the international covenants now before the Senate. Hence the United States, through inaction, could be charged by communist countries with failing to comply with the same accord it invokes to criticize repression elsewhere.

The United States is thus left open to the charge of hypocrisy, a charge that cannot be persuasively countered by civics lectures on the difficulties of getting 67 senators to vote for ratification. That problem is real. It can best be addressed by a determined administration effort to educate the Senate and the country on the visibly increasing importance of international law. There may, indeed, now be a persuasive one-word argument for ratifying the conventions expeditiously: Tehran.

THE NEW YORK TIMES

International Opinion

Blocking Iranian Funds

The U.S. decision to block Iranian holdings has considerable potential for destabilizing the international exchange situation. No doubt the market would be able to handle the sums involved if the Iranians were able to put through large-scale transfers — always provided that the central banks concerned maintained their cooperation with one another. But major complications could arise from the U.S. freezing operation, particularly for the foreign subsidiaries of the U.S. banks, which are in principle subject to the law of the land in which they are established. Iranian action in Swiss courts, for example, could raise some delicate legal problems, especially as Switzerland, like other countries, has always resisted the extraterritorial application of U.S. legislation in the interests of the rule of law.

— From the Neue Zürcher Zeitung (Zurich).

Britain and EEC Budget

Prime Minister Margaret Thatcher has staked a good deal, perhaps too much, on her meeting with European Economic Community leaders in Dublin this week. . . . She has said that Britain's net contribution to the Community budget of more than \$2 billion a year must be reduced in toto. This may be music to our ears, but it seems to have made very little impression south of Calais and not all that much more in Bonn. . . . Mrs. Thatcher will certainly have some persuading to do, though commentators who foresee Armageddon should not forget that compromise is another name for politics, even in Mrs. Thatcher's lexicon. . . . It seems to us to be unfair that Britain, the third poorest member of the Community, should be by far the largest net contributor.

— From the Daily Telegraph (London).

In the International Edition

Seventy-Five Years Ago

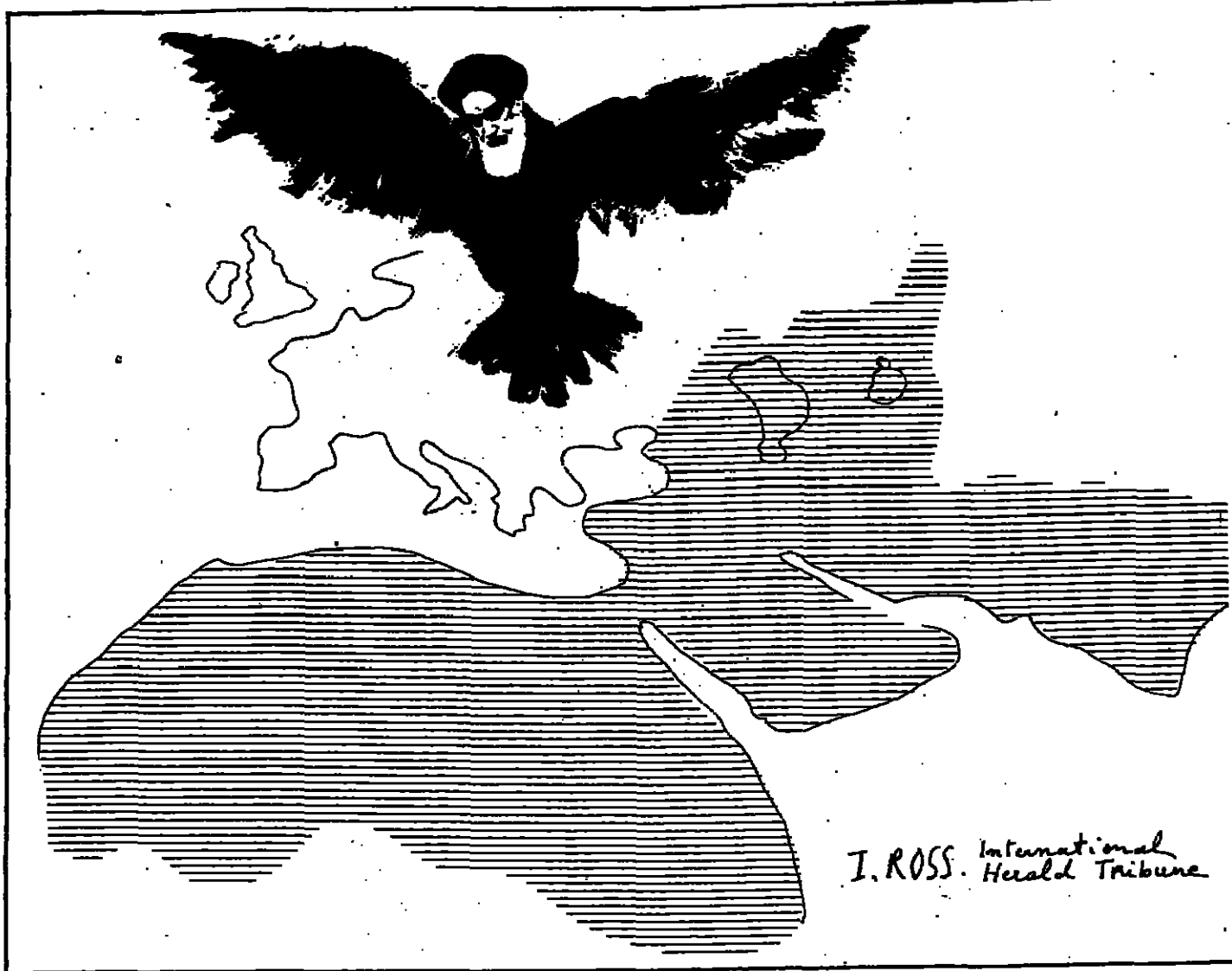
November 28, 1904

NEW YORK — The New York Times commented in an editorial: "Probably no intelligent Russian imagines that Russia can go on permanently in the condition in which it now exists as an anomaly in modern Europe and the world. If the Russian ruling classes content themselves with continuing to sit on the safety valve of popular discontent, history warrants us in expecting an awful explosion. To allow popular discontent to express itself through the Zemstvos, or such a channel as may be open, and to pay heed to its expression, form the surest means of preventing such a general overturn in Russia as a century and more ago occurred in France."

Fifty Years Ago

November 28, 1929

AIX-LES-BAINS, France — When a young French girl, Andrea Caron, marries the Aga Khan, wealthy Indian potentate, Prince George, youngest son of the King of England, will act as a witness. The Aga Khan III, 57, is the head of one of the largest religious sects in India, the Ismaili, and asserts he is a direct descendant of the Prophet. He is a graduate of Eton and Cambridge. His followers are to be found not only in India, but in Afghanistan, Persia and Arabia. He is now trying to avoid the publicity that followed the announcement that he was to marry a shopgirl in her 30s. His future bride has been kept in seclusion.



Killanin: Politics Run Last in Olympics

By Lord Killanin

DUBLIN — While the sports pages of most international newspapers which I read are devoted to the preparation of athletes and competitors for the 1980 Olympic Games in Lake Placid and Moscow, frequently political stories make the headlines.

The Games are about athletes and sport, and it is the right of all those qualified to compete, regardless of race, religion, or politics. It is for this last reason that when mention is made of South Africa, which has had its recognition withdrawn by the International Olympic Committee, and most Olympic International Sports Federations, on the grounds of racial discrimination, that a counter-reaction is frequently "but why hold the Games in a communist country which does not conform with human rights or observe the Helsinki agreement?"

The major difference is that in South Africa, with its apartheid, i.e. de facto racial segregation, divides people racially, by law, into categories which cannot change, because they are by birth black, white, colored or Asiatic. While these strict apartheid laws exist, it is impossible for the South African athlete to fulfill the obligations which are imposed by the International Olympic Committee and most International Sports Federations on the National Olympic Committee and national federations.

Awarded to City

The Games are not awarded to a country, and therefore not to a government. They are awarded to a city. I admit that in the totalitarian states of the left and the right, the independence of sport is difficult, and often forms part of governmental organization. I believe there to be only some 20 to 30 National Olympic Committees which are based in what might be termed, in Western parlance, "democratic" countries. It is not the responsibility of the International Olympic Committee, International Sports Federations, or National Olympic Committees to become involved in the concepts of governments within the country where the Games are being held, provided that IOC rules regarding access for officials and athletes are fully recognized and the basic principles recognized in sport.

In the Soviet Union, while there is no institutionalized racism, certain of their penal codes, which are the responsibility of the national government, might not be acceptable to a Western democracy. However, this again is not the business of the International Olympic Committee, although its members will naturally have their own viewpoints, depending on their political and national outlooks. It is a matter for governments, as is SALT-2 or the Helsinki Agreement.

I am subject to considerable criticism from the left and right. The president of the former South African National Olympic Committee has gone out of his way to make attacks on me, of which I am not ashamed. At the same time, I am subject to avalanches of obviously organized circular letters. These are formally acknowledged only, as I do not believe in getting into personal discussion with individuals or pressure groups. However, if these letters are directly concerned with the organization of the Olympic Games, whether in Moscow or Lake Placid, they are always forwarded to the organizing committee concerned.

Sakharov Letter

In August, Leopold Unger, in an article headed "Propaganda Gold in Moscow Olympics" (JHT, Aug. 30) wrote that Andrei Sakharov, the Nobel Peace Prize laureate, had written to me, although I never received the letter.

Subsequently, through the International Herald Tribune, I made enquiries and obtained a copy of this open letter, which, I repeat, had never reached me. However, as I have mentioned above, where there are suggestions made directly affecting the Olympic Games and come within our rules or area of responsibility, action is always taken. Certain persons have asked that

the IOC should press for the release of political prisoners at the time of the Games. Whatever one's sympathies may be, I do not believe it is the duty of the International Olympic Committee to interfere in the affairs of the Kremlin or the State Department, other than in their direct responsibility where government pledges have been given to the IOC in regard to the hosting of the Olympic Games and issue of invitations to all recognized National Olympic Committees.

There are accusations that the Soviet Union will make use of the Moscow Olympics for "window-dressing" and while the gold medalists will be remembered, those who are following their own consciences may be forgotten. My contention is that neither the Soviet government nor its opponents should make use of the Olympic Games for propaganda purposes. There are some who wish to see the Games withdrawn from Moscow. Not only would the IOC be in breach of contract if this was done but the Organizing Committee has not broken any of its commitments to the IOC.

We have had repeated assurances from the Soviet government that all recognized National Olympic Committees will be allowed access. In these days of vast propaganda and intelligence agencies working for the different political philosophies throughout the world, it is extremely difficult to sift the truth from the propaganda. The International Olympic Committee voted to award the Games to Moscow; it was for the first time to a communist country. Los Angeles, which has been awarded the Games in 1984, was the other applicant.

This was done in the belief that sport is universal and the political regime of any country should not be a consideration. This indeed was the view of the Federation Internationale de Football Association (FIFA), who persisted with their choice of Argentina for the last World Cup.

WASHINGTON — "Calculated delay" is the phrase chosen by one editorialist to praise the frustrated finger-wagging of the Carter administration, which refuses to acknowledge that this nation is being warred upon. In the 19th century, the favorite euphemisms were "masterly inactivity" and "disciplined inaction."

The trouble with such praise of folly is that it focuses only on the immediate incident — the taking of hostages — and considers some bloodless retaliation after the hostages are returned, or a more destructive reaction if the captives are killed.

Retaliation now or later is not the issue. Assume the Shah returns to Mexico next week, and the United Nations agree to hear Ayatollah Khomeini's complaints against him for such crimes as the land reform that weakened the mullahs. Then, if the hostages come out, the United States will warn other Americans in Iran such as newsmen to get out and avoid being taken hostage as we destroy the Abadan refinery. That would punish Iranians without seriously affecting shipment of crude oil to our nervous allies.

Power Spasm

The other scenario: If the current power spasm leads to the trial and murder of U.S. diplomats, U.S. forces could destroy Iranian air and naval facilities, seize the island of Kharg, blockade the Gulf, and determine how much food goes in and out of the country.

Some such tactical retaliation would satisfy U.S. national pride and chastise the wicked, but would do nothing to turn today's diplomatic outrage to a U.S. geopolitical advantage.

A power vacuum will soon exist: The Khomeini phenomenon, an amalgam of the new fanaticism and the old rent-a-mob, will go as suddenly as it came. One of the two

superpowers will then move strongly to fill that vacuum.

The Russians might try the direct route, with a coup by radicals in Tehran, backed by Kurdish and other tribal revolts elsewhere in Iran. Or they may take an indirect way: Iraq, now the most formidable military force in the region, despises its neighbor. The Arab Moslems in Iraq could seek to liberate their Arab brethren in Iran from the non-Arab Moslem Iranians; with Soviet backing, they would probably succeed, and Moscow would then control the oil lifeline to Western Europe.

Not Bashful

The Russians have not been bashful. With advisers and mercenaries, they have taken strong positions in Southern Yemen and Ethiopia, although Zbigniew Brzezinski, ostrich-like, has been pool-pooling reports of buildup there in recent months. Soviet sponsorship of an Iraqi move into Iran could cripple the West.

The other possibility is for the United States to seize this opportunity to become a welcome military presence at the world's energy jugular.

The United States has been provoked, its embassy territory invaded and its nationals captured and harassed. The best part of that is that the aggressor is neither Arab nor Russian. Rather than merely react, as we are expected to do, we could thoughtfully respond — in a way that projects our forces into the area on a long-term basis. We could recoup the losses of a decade and re-establish our strategic pre-eminence.

First, the United States should lease the two airfields being returned to the Egyptians by the Israelis in the Sinai. These are among the most sophisticated air bases in the world, built with U.S. equipment, capable of handling U.S. B-52s. If, for example, the occasion

came to strike at strategic Mideast targets today, B-52s would have to fly from Guam to Diego Garcia, refuel, and carry out the mission; the United States and its allies would be better served by a Mideast facility.

Long-term leases of these desert outposts — no population nearby, no security problem — would position the United States legally as firmly as at Guantanamo. A substantial rental would help ease Egypt's economic woes. To protect the bases, a permanent U.S. ground force would be needed — which could double as an Egypt-Israel peacekeeping force — and could be strengthened by air quickly if Saudi Arabia or the oil emirates were threatened.

As part of this strategy to reassure friends of the United States in the Mideast, we should promptly and decisively increase our military aid to the King of Morocco in his fight against Algerian-sponsored radicals.

Carter would have to set aside his Vietnam-era guilt in order to embrace such a strategy. He would have to confidently urge the rebuilding of our conventional military and naval forces; the 5 percent real increase brooded about at Camp David should be seen as more than a payoff for senators' votes for SALT.

The ayatollah's provocation is heaven-sent. The president's job is neither to turn the other cheek nor to retaliate in fury, but to use this incident with audacity to assert U.S. power in the Mideast and to reverse the strategic decline over which he has presided.

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MARK HERRBACH,
Zurich.

Missile Decision For Europe

By Enrico Jacchia

ROME — Optimism is the prevailing mood in Washington official circles on the question of the European missile decision. Yet, the four days between Dec. 12 and 15, when a set of decisions have to be taken at various levels of the Atlantic Alliance, may bring some surprises.

The Kremlin's attitude is being tougher and Foreign Minister Andrei Gromyko delivered a warning to members of the Alliance last week in Bonn.

But the problem cannot be confined to the Soviet SS-20 and to U.S. Cruise and Pershing-2 missile alternatives faced by new European political parties are at stake. The Eurocommunists are the more direct and persistent challenge to Eurocommunism.

The Communist parties of the European left have been trying to join forces with them — scored substantial successes, in the past few years, in gaining recognition of their democratic beliefs in dealing with their political opponents. They are now more in government in Western Europe. But some countries, they are very close to it.

There is a price to be paid for admittance. The Eurocommunist parties (with the exception of France) have proclaimed their "neutrality" of the Atlantic Alliance. They are not enthusiastic about NATO, and they are not in favor of increased military spending. But their official posture is NATO and the Warsaw Pact useful to maintain some sort of balance until détente has made substantial progress.

Their current attitude during past few weeks has surprised observers. When the United States tried to introduce the neutron bomb in the European theater, the Eurocommunist and a large fraction of the Soviet left made such a sensation, successful opposition to the White House had to back off.

Nothing comparable has happened until now as regards the neutron bomb. The Eurocommunist parties have been active to introduce the neutron bomb. The neutron bomb is a weapon which is more than the neutron bomb. It is the opposition in most cases so moderate that it seems to be the optimism that has been in Washington.

And here comes Boris Yeltsin, a leading personality in the Soviet Communist Party, to Eurocommunists that there is a price to be paid for it.

In Rome, these last days, have been outspoken: With the political resources it commands, the Italian Communist Party may well — as it did for the bomb — if it wants to. If the government could be induced to stay in the Atlantic Council, the Dutch opposition would be stronger and the Belgians would be left alone with a decision.

The appeal for unity made by authoritative Communist leaders should be felt strongly by the tanks because it touches a sensitive Mr. Pompidou seems to say that if they allow missiles to be introduced in that could bring death and destruction to communist countries, betray the international movement. For an orthodox communist, it is some truth in that.

Thus, during the forthcoming weeks, and predictably also after, the question of European Soviet Communist Party, and delicate internal political problems are intermingled.

In such a situation, many people believe that by helping the Eurocommunists overcome their difficulties, the Western European democracies would make a first step in the good direction. A European left, effectively independent from the Communist Party, the Soviet Union might finally emerge in Western Europe.

But the opposite view has its supporters, too. Thanks to their "promise" technique, the Eurocommunist are eroding the position of Social Democrats and also the left wing of Europe's Christian Democrats. A political "gray" will replace the clear distinction between freedom and totalitarianism.

The advocates of this policy criticize the policy presently used by the U.S. representatives many European capitals, insisting that they should — in the mind — help make the defense a desperately passionate political question. The Eurocommunist would then be in great difficulty their internal contradictions would explode and the movement would eventually fade out. An event favorable to the consolidation of truly democratic left in Western Europe. The opportunity is so great they say, that it would be a pity to miss it.

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The Euromarket — 1979

International Credit Markets Offer Wide Array of Instruments

'Liability Management' Accepted by U.S. Banks

By William C. Melton

NEW YORK (IHT) — During the last 15 years "liability management" has become accepted by large American banks as a primary strategy for adjusting their balance sheets. In tapping the vast pool of short-term investment funds for the purposes of liability management, large negotiable certificates of deposit (CDs) are becoming more important to banks than ever before. When the bank repurchases agreements (RPA) for the CDs, the bank is effectively borrowing from the CD market. Because of the heavy bank reliance on the CD market, the money market authorities have on numerous occasions used a wide variety of policy measures to influence bank use of CDs. In fact, since its introduction in 1961 no other vehicle for liability management has been subjected to as many changes in regulation as CDs.

As its name suggests, a certificate of deposit is simply a receipt certifying that a certain amount of money has been deposited at the bank. The certificate also specifies the rate of interest to be paid and the date on which the principal and interest may be withdrawn (the maturity date). Large denomination CDs, those in amounts of at least \$100,000, are used in liability management. They are generally negotiable, i.e., the owner may sell the deposit to another investor prior to the maturity date.

Because CDs are time deposits, they are subject to federal reserve regulation. D, which requires time deposits to have a minimum maturity of 30 days. Time deposits are covered by deposit insurance up to the first \$40,000 of principal, and are usually only a small fraction of the face value of large denomination certificates. Therefore, investors must evaluate the likelihood of default by the issuing bank when considering purchase of a CD.

Issued at Par
Since deposits cannot be accepted by a bank on a discount basis, CDs are issued at par and are sold on an interest-bearing basis. Most other money market instruments, such as bankers' acceptances, commercial paper, and treasury bills, are traded on a discount basis. Should a CD be sold prior to maturity, the seller receives payment from the buyer for the principal, — adjusted to current market value — and for interest accrued from the original issue date to the date of sale. If the buyer holds the CD to maturity, he or she receives both the principal and the full amount of interest indicated on the certificate.

Day of Purchase
CDs are normally paid for in immediately available funds on the day of purchase, and they are locked in immediately available funds on the day they mature. To facilitate settlement, CDs of many New York banks are often issued and redeemed through the issuer's correspondent bank in New York.

investment powers of state and local governments force many to hold their temporarily investable funds in either government obligations or deposits in local commercial banks. Thus, these restrictions often make CDs the only instrument on which municipalities can obtain returns on short-term investments that are greater than those available on treasury bills or other time deposits.

Distribution

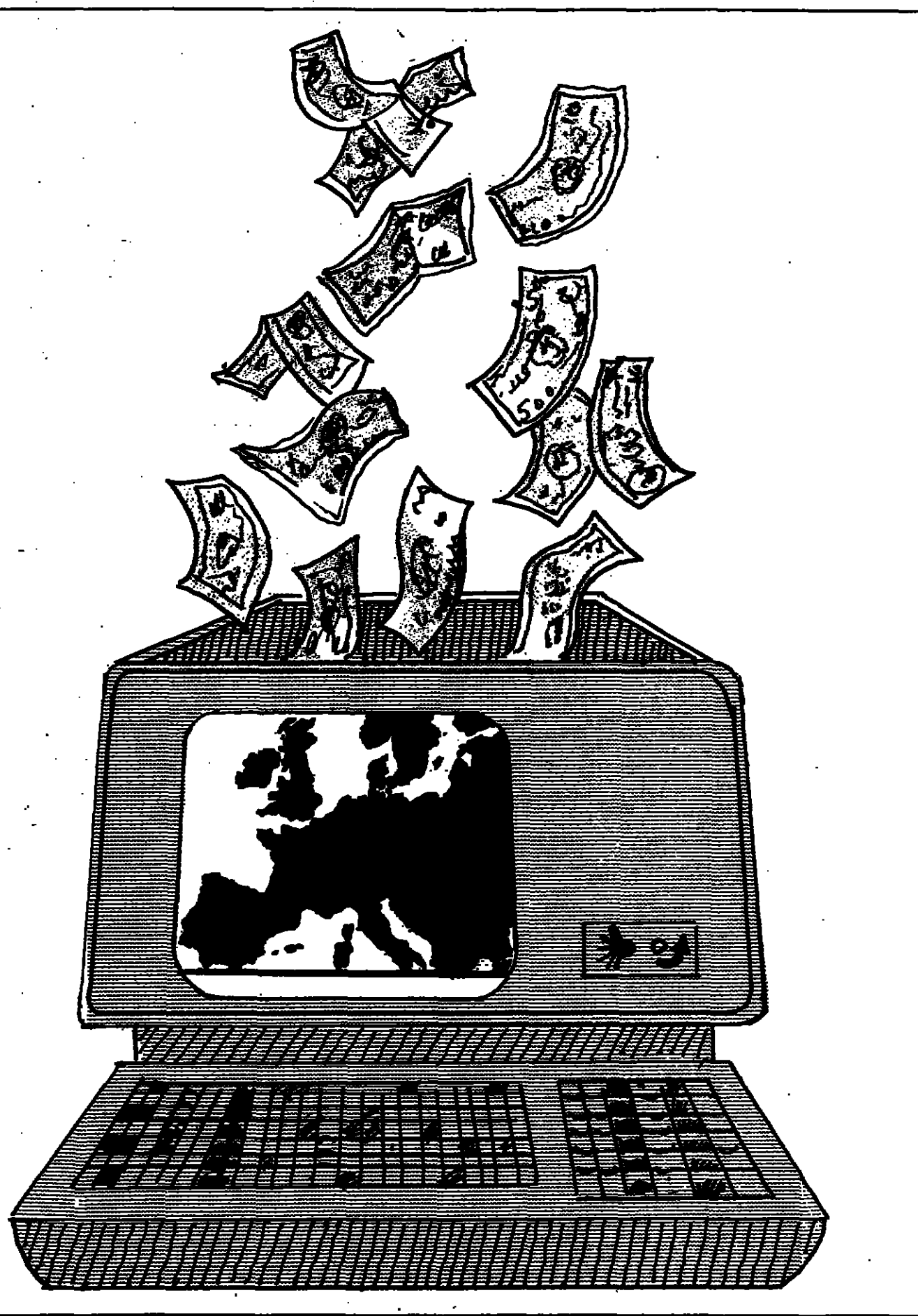
The present distribution of CDs among different types of investors is known only in broad outline. Some detailed information is available from surveys conducted in the early 1960's when there was only about \$10 billion of large CDs outstanding, compared with about \$394 billion at present. The results of those surveys, showed that, as one would expect, business corporations were by far the largest original purchasers of CDs, which the remainder was bought, in about equal amounts by state and local governments, foreigners, and "others." The surveys also showed that smaller banks tended to sell relatively more of their negotiable CDs to individuals and to state and local governments and that these CDs were smaller on average than those issued to other types of investors.

The only recent source of information on the distribution of CD holdings is the breakdown of weekly reporting banks' outstanding CDs into those issued to individuals, partnerships, and corporations (IPC) and those issued to all others. In most recent years, the share of CDs issued to IPC holders has been about two thirds. This suggests that the proportion of CDs originally purchased by businesses and individuals has not changed much.

In liability management, banks actively seek more flexibility in expanding their lending capability in line with their profitable lending opportunities instead of adjusting their lending to deposits received more or less passively. Banks can do this by increasing their CDs when loan demand is strong and by allowing them to run off when loan demand turns sluggish. Only money-center and large regional banks have the ability to market their CDs effectively. The one hundred largest commercial banks with deposits in excess of \$50 billion account for about 90 percent of all large denomination CDs issued.

On occasion, even a large bank may not issue all of its CDs directly to investors. For example, when a bank's liability management strategy requires it to market a large amount of CDs quickly, it may attempt to issue the CDs to dealers

(Continued on Page 115)



Beware of Two Illusions: Diversification, Coupons

By Andre Coussemont

LUXEMBOURG (IHT) — The international debt markets not only offer safe havens. They also offer a wide array of instruments. Most international investors are not satisfied with the stability of their national currency or with the return they can get — or both.

The international markets can better satisfy them but they must beware of two important illusions — the diversification illusion and the coupon illusion. Diversification was given credibility by the work of enlightened financial theoreticians, who demonstrated with charts, derivatives and the Greek alphabet that by diversifying investment in the stock market into companies of different sectors, one could increase the return and reduce the risk, defined as variation in earnings.

So people continued to diversify, as did corporations, to the point that telecommunications companies bought bakeries and oil companies bought department stores. The theory's limitations quickly became apparent, but the idea that diversification was good, and that, in the uncertain world of floating currencies, it would reduce the risk to an international investor, remained. This has proved untrue. Diversification may have been good in the stock market, but the international capital market is not the stock market.

Stability

If an investor goes international, he looks for a good return and above all, long-term stability of his assets. Stability can be defined as very little or no depreciation vis-à-vis the currency of his future expenditures (usually his own) and maximum protection from monetary erosion. He should thus look for currencies that are related to his own. These should normally appreciate and have little chance to depreciate.

A European investor should thus buy European currencies, the stable and appreciating ones being the German mark, the Dutch guilder, and the Swiss franc. The French franc and sterling can be considered as giving a high return, but are not as stable.

By "diversifying" into dollars or yen, the European investor increases rather than decreases his risk. Here diversification promises the opposite result from that demonstrated in backrooms concerning stock portfolios.

It could increase the return, but it also increases the risk.

South American investors, for instance, have better long-term security by buying dollar assets than anything else, unless they consider a retreat on the Riviera, in which case they become "European" investors because their future expenses are in European currencies.

For people from the Middle and Far East, the problem is more difficult. Their currency has so far been related to the dollar, but this may not be the case in the future. They could probably reduce their risk by diversifying into European currencies and the yen.

Illusion

The coupon illusion often influences investors too much. Many prefer weak currencies with high coupons and ultimately lose more capital than they have earned on the coupon in the early years. Preservation of one's buying power is usually more easily achieved by protecting capital than by a coupon.

Institutional investors are important in the international market these days, and their currency choices are usually easier. Many are dollar-based or restricted to dollar investments, such as central banks and Bermuda captive insurance companies. The international markets offer them a wide range of flexible short-to-long-term investments. Investment funds are equally important. They are often single currency funds and do not diversify, or their marketing is often concentrated in areas in which they look for stability vis-à-vis the area's currency. Central banks are trying to diversify out of the dollar because their foreign trade is less and less dependent on the dollar.

OPEC central banks and agencies, which are paid in dollars and have a lot of their future expenditures in currencies unrelated to the dollar, want to and should diversify to reduce their risk. The sheer magnitude of their holdings creates a

tremendous gap between what they should do and what they can do. This is a problem that keeps central banks and the IMF busy enough.

Interest rates are at historic peaks in dollar and many other currencies, especially in German marks. This does not mean they will not go higher during this or another cycle, but it provides a good reason to start locking up some of the high yields.

The trade-off is between security and liquidity, on one hand, and return on the other. By rolling over short-term deposits, one keeps maximum liquidity. Return could be lost because of the risk of investing long-term too late, however.

Even if it implies some short term sacrifice in an inverse yield curve situation, the time is probably right to secure high long-term rates if one invests for the long term. This is particularly true for private investors whose access to the short term market is more difficult and less lucrative and who do not spend much time managing their savings.

For dollars, a strong case can be made for floaters, particularly drop lock and convertibles, which should provide high return for a long time and good minimum return.

While it is possible to forecast a trend for German marks and other European currencies, with the peak likely in late 1979 or early 1980, dollar interest rates are less predictable at the moment.

In choosing an investment, the investor needs to be aware of the different possibilities. There are many sorts of instruments in many different currencies. Starting with dollar bonds, an investor has a choice between "yankies" bonds and Eurobonds. (Domestic U.S. dollar bonds are usually unsuitable because they are subject to a withholding tax for non-resident investors.)

Foreign bonds, issued in New York by foreign borrowers and called "yankies bonds," are tax-free and carry higher coupons than domestic bonds of similar quality. This liquidity is nowhere near that of domestic bonds, since non-residents are the main buyers.

They are issued by syndicates led by U.S. investment banks, including many non-U.S. underwriters, and marketed all over the world. They are usually straight bonds, with maturities of five to 30 years, and of prime quality borrowers. On some occasions, borrowers offer a "put" option, for instance, optional repayment at 120 percent after five years. This offers the investor a chance to recover his "opportunity loss" on the yield of the bond if the stock performs badly. This option is rather unusual in normal markets because it places a high burden on the borrower.

Liquidity

Then come the "floaters." The concept is easy. It is long-term paper (three to 15 years) whose coupons are reviewed every three or six months at a slight spread (4 percent usually) over the yield of the London Interbank offered rate or over the mean between bid and offered. The yield is thus much better than the yield given by rolled-over short term deposits, especially for small amounts.

The secondary market is very liquid. Minimum rates are guaranteed but they are very low, usually 5 to 6 percent. The Eurodollar interbank deposit market (in London, Luxembourg, Singapore and any country that does not put too many burdens on foreign banking) offers opportunities for short term deposits. Investors with small amounts, about \$25,000, for example can get rates around 1 1/2 points below interbank bid. The higher the amount, the smaller the differential. For \$1 million, one can usually get the interbank bid rate. This was about 16 percent for three months in early November.

The investor with at least \$250,000 can get even more liquidity by buying certificates of deposit (CDs) issued by London or Singapore branches (and maybe soon Luxembourg subsidiaries) of prime banks. The return is slightly lower (1 to 1 1/2 percent points below interbank bid, depending on the amount and quality) but the liquidity is almost perfect thanks to a very active secondary market.

Private investors are the main target for floating rate note (frn) issues, although they are not the main buyers by a wide margin. Even so, (Continued on Page 145)

A Terrorist Decade: Ransom Tops \$25 Million

By Thomas C. Hayes

NEW YORK — Many of the world's largest companies, lacking a unified defense and willing to pay large ransoms, have become the favored targets of international terrorist groups. By one estimate, they have paid at least \$250 million in ransoms in the last decade.

According to recent two reports on the problem, many companies have responded by hiring former military and government intelligence officers, establishing top-level "crisis management teams" to administer detailed negotiations to counter terrorists and calling in negotiators who specialize in dealing with terrorists.

Nevertheless, analysts predict that rising terrorism against business executives and members of their families will not begin to decline soon. Terrorist incidents this year are running at a rate almost double last year's level, according to the Conference Board, an independent business research organization.

"A great many terrorist incidents involving business are negotiated, not fairly quickly, and you don't hear about them," Ruth Karen, author of a lengthy report on worldwide terrorism for the Business International Corp., said. "The problem is reaching dimensions where the need for international actions is becoming apparent."

Business International is a private research and information organization with 400 corporate members whose work is primarily focused on global development. Its report on terrorism, which costs \$2,500, was written primarily for Business International members, a spokesman said. The Conference Board report is free to its 4,000 member organizations and is available at \$9 for nonmembers.

A committee at the United Nations debating terrorism has taken no action, Miss Karen, vice president for corporate public

policy at Business International, said in an interview. So, with few other international forums capable of confronting the matter, the problem of dealing with terrorism against business is likely to be left to individual companies for many years, she added.

Business has become a more frequent target, in part because governments, led by the United States and Israel, have refused to negotiate with terrorists, according to Patrick McGuire, who wrote the Conference Board report, "International Terrorism and Business Security."

Mr. McGuire also asserts that sympathetic governments (he mentioned those in Libya, Czechoslovakia, Iraq and South Yemen) have reportedly reduced their financial backing of terrorist activities because terrorists have found that corporations under duress are often good sources of money.

Softer Target

"In effect, business is the softer target now," Mr. McGuire said at a news conference. "Any strategist goes to the softer target." In general, terrorism has proved increasingly "cost-effective," he added. "One of the popular misconceptions is that terrorism is not very effective. But three out of four terrorist attacks since 1970 were considered successful."

The ransom insurance business, with policies commonly ranging in coverage from \$1 million to \$2 million, has mushroomed in recent years as a result of the terrorist activities. Lloyd's of London, Federal Insurance and the American Insurance Group are three major underwriters, according to Mr. McGuire.

These and other insurers prohibit companies from disclosing that they possess the ransom insurance on the belief that terrorists would then take aim at the insured executives. Mr. McGuire said, however, that there was no evidence of this. He estimated that as

many as 200 companies included kidnapping coverage in their overall insurance plans.

Another blooming cottage industry is composed of consulting negotiators. One group, Control Risks Ltd. of Britain, has reportedly been involved in more than 60 kidnapping negotiations. "Some companies believe in using outside expertise against terrorists," Miss Karen said.

Ransoms Since 1970

In his report, Mr. McGuire noted that no terrorist groups demanded more than \$1 million before 1972. However, there were 12 cases last year in which more than \$1 million was paid. "A ransom of \$5 million to \$10 million is by now virtually the norm for terrorists," he wrote.

He estimated that \$150 million in ransoms had been paid to terrorists since 1970. Miss Karen of Business International put the figure for 1968 to 1978 at a minimum of \$250 million, with United States-based corporations paying an estimated \$125 million. The Exxon Corporation's \$14.2 million ransom paid in 1974 to Marxist guerrillas in Argentina for the return of Victor Samuelson, an executive, is the largest on record in this country.

The ransom money received by terrorists is typically used to finance their future operations, Miss Karen explained. That means companies paying ransoms face "a new moral dilemma" since saving one life today may put others in jeopardy tomorrow, she said. To thrust out this and other difficult questions, many of the 55 companies she studied in the last year have set up "crisis management teams" to deal with terrorists that include the following:

- A policy-making executive, though usually not the chairman or chief executive.
- An international vice president familiar

with the politics and culture of the areas where foreign operations are conducted, since most terrorist attacks occur outside the company's home country.

- A senior financial officer, who must make key decisions when a ransom payment becomes part of negotiations with terrorists.

- A senior legal officer, since negotiations often involve delicate transgressions of local laws, especially when corrupt governments are involved.

- A top human resources officer, to deal with both the victims of the terrorist act and their families and provide medical and psychological experts as needed.

- A senior public-relations officer, to deal with the anticipated inquiries from news organizations.

- The company's security officer, a "kingpin" of the team, with the worldwide security resources of the company at his command. One problem in their studies was how to define terrorism, Mr. McGuire and Miss Karen acknowledge. In his study, Mr. McGuire included those acts that were motivated for "political" reasons, including bombings, hijackings and kidnappings, but not incidents inspired by "mercenary" or criminal reasons. Miss Karen said she was concerned with "kidnappings for ransom of corporate executives by political or criminal organizations."

The highest percentage of international terrorist attacks in the last decade against U.S. citizens was against businessmen, with 36.2 percent, according to the Business International study. Also, American citizens were the targets of 41 percent of terrorist attacks internationally, the most for any nationality.

The Conference Board study showed that U.S. businesses were the targets of a quarter of all terrorist attacks this year. In the first nine months of 1979, there were 2,662 reported incidents worldwide, Mr. McGuire said.

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Euromarkets

Fears of Price Volatility Growing as Spot Oil Market Expands

By John Geddes

BONN — The spot oil market, despite international criticism and attempts to control it, is booming.

Officials of European and international agencies estimate that this market, where oil is not under long-term contract is bought and sold, now accounts for at least 10 percent of the world oil trade. This is up from 5 to 6 percent at the beginning of the year and up from perhaps 8 percent early last summer.

"The trend is undoubtedly upward," said an official at the Organization of Economic Cooperation and Development. The prospects for a continuation of this trend, he added, were reinforced with the recent announcement by Iran that it might increase its spot market sales of crude oil in lieu of sales to U.S. companies.

At both international and national levels, officials are worried about the trend. A further rise in the volume of oil on the spot market could signal a move away from long-term contracts. This could transform the spot market from its subsidiary role of matching excess supply with demand or excess demand with supply into a major part of the overall oil market.

Such a transformation could extend the normal volatility of prices in the spot market to all oil prices and could further reduce the already weakened discipline of any price structure established by the Organization of Petroleum Exporting Countries.

In addition, an increased volume of spot oil dealing could shackle the nascent attempts to control the spot market because, almost by definition, the larger a market is the more uncontrollable it becomes. Pressures for control (led by France) have resulted so far only in a pledge by major oil-consuming nations to gather and share information on cargoes bought, prices paid and ultimate destinations. None of this information, however, is being gathered on a regular basis.

"Unfortunately, there's nothing inherent in the market itself that will limit the volume of oil traded at spot prices," one trader at a major oil company said of the possible diversion of Iranian oil into the spot market. "All it means is that a few more people will get telephones and telexes and take part."

The abstract nature of the spot oil market means that its size can be estimated only by sophisticated

guesswork. By tradition, Rotterdam's huge Europort (which serves as an entry port for all of Europe) is the center of trading. Many participants in the spot market have offices in Rotterdam, but actually the market has no physical center. It exists through a worldwide network of telephone and telex lines.

Because of this diffusion, one oil company's spot trader differs sharply with official estimates, saying that 10 percent of world oil trade was on the low side and that 8 percent for last summer was on the high side.

The guesswork has been made even more difficult by the increase

'But it was not necessarily to be forever: The Fed had declared at the beginning that this new way of operating would be reviewed at the end of the year.'

As for the touch substance of policy, as distinguished from tactics, the simple answer that Mr. Volcker would give if he talked freely on such a question is — yes, he will stick to the policy.'

mostly on prices rather than as a disruption in supply. But major oil companies acknowledge that an accompanying trend away from long-term oil contracts presents potential difficulties in times of supply dislocation, since there are fewer secure sources for them where they are assured of getting oil.

The entrance of the oil-producing nations into the spot market is illustrated by the increasing share of crude oil as opposed to oil products traded on the market. On the Rotterdam market, European Common Market officials estimate, spot crude sales total about 10 percent of OPEC's output, or 3 million barrels a day. At times last year, they say, spot trading in crude totaled only 1 percent of OPEC's output.

Slower Growth

Much slower growth has been seen in the spot market for petroleum products, historically the major part of spot trading. Spot volume of products such as gasoline and heating oil have increased to only about 7 percent of world trade from 5 percent last year.

But even the Common Market acknowledges that its figures are only a guess. One spot trader with one of the major international oil

companies said he thought that crude trading currently totals 13 percent of OPEC's production, 30 million barrels a day, up from 6 percent last summer.

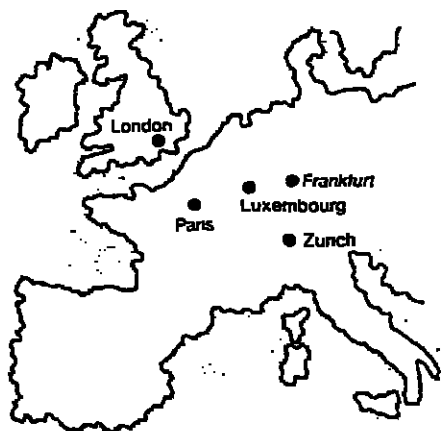
Further clouding the situation is the OPEC members themselves. Some of these countries, especially Iran, have already been changing premiums for fulfilling long-term contracts to reduce the difference between spot and long-term prices. Other OPEC members have been auctioning excess capacity at prices, forming what one company official called a "new spot market."

This OPEC development is sharp contrast to a pledge on a spot market made in a communiqué issued by OPEC after a meeting in July. It said, "Member countries will take steps to limit transactions in the market in a collective effort to avert the present price spiral."

Hamid Zahedi, chief spokesman of OPEC in Vienna, acknowledged that member countries had "not" implementing the pledge. He said, "It's difficult when a big comes to your country and offer pay more for additional capacity."

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Planning to use the Euromarket? First consider the following:

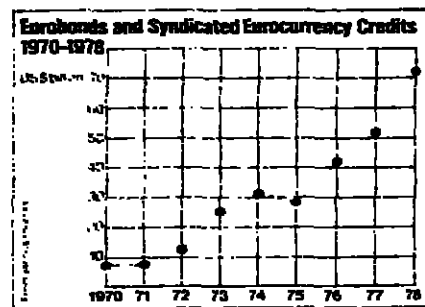


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Bonn Uneasy on Mark Reserve Role

BONN (NYT) — The West German central bank has signaled anew its objection to any widening of the role of the West German mark as an international reserve currency, a possibility that could be one result of any Iranian move out of dollar-based assets.

The Bundesbank emphasized in its monthly report that, while its efforts to dampen the trend had thus far proved unsuccessful, any agreement on its part to a wider role for the German mark would prove dangerous for both the domestic and world economies.

The article, though written before Iran's threat to stop accepting dollar payments for oil, nonetheless dovetails with German statements regarding such a potential inflow of foreign funds.

Government officials have said that, while they probably could not stop any such Iranian move into German mark assets, it would be an unwelcome development and could only be done if accompanied by a declaration that no dollar crisis could result.

Behind the German unease is in-

security about what could result from such an Iranian move. On the one hand, it could push the mark's value higher, dampening the rate of oil-imported inflation. But, if the Iranian move touched off other inflows, the action could fuel domestic inflation by swelling the money supply and hurt domestic industry by making the mark's value too high.

Unsettling

Another unsettling factor is the acknowledgment by the central bank that the mark's seemingly unstoppable upward trend against the dollar is continuing to raise the amount of German mark assets held by foreigners, a possibly volatile factor in future months.

According to the Bundesbank, foreign holdings of nondirect investments in Germany doubled by mid-1979 to the equivalent of \$92 billion from mid-1975. These investments, which include securities and bonds, rose despite a number of restrictions that were imposed in attempts to counter the trend. These included edicts against foreign pur-

chases of bonds with maturities of more than four years.

A similar worry, the bank said, came from \$82 billion worth of foreign mark investments outside Germany in 1978, funds and investments held by foreigners in the Euromarket, over which the German authorities have no control.

While all these factors were described as worrisome, the German central bank expressed the most concern over the adoption by other monetary authorities of the German mark as an important part of their currency reserves. The bank said that only the United States could provide the world with a reserve currency "without having its economic policy damaged by the fluctuations of capital flows."

Reserves

According to the Bundesbank, the German mark made up some 11 percent of the world monetary authorities' reserves by mid-1979, up from 7.7 percent in 1975. At the same time, these authorities increased their investments in Germa-

ny in German-mark assets to the equivalent of \$6.7 billion, up from \$777 million in 1975.

The fastest rate of increase in foreign monetary authorities' investments in German-mark assets, recorded by members of the Organization of Petroleum Exporting Countries. Their share of investments in Germany rose to the equivalent of \$660 million in 1979 from \$40 million in 1975.

The German central bank said these inflows had mainly been a result of investors' seeking the mark as a flight currency rather than any corresponding increase in the German mark's transaction currency.

Although the primary argument by the bank against the use of German mark as a reserve currency was the susceptibility of the country to capital inflows and outflows also argued against the adoption of any non-dollar reserve unit, such as a unit made up of a basket of currencies, such as the International Monetary Fund's special drawing rights.

— JOHN M. GEDDES

All these securities have been sold. This announcement appears as a matter of record only.

November 15, 1979

\$20,000,000



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Growing Third World Debts Source of Increasing Concern

Span Growth

panies said he thought a drastic curbing of OPEC's current 40 percent of OPEC's oil exports last summer. Another leading OPEC member, Iraq, has already hinted at following suit to reduce the market pressure on oil prices. The contract price for a OPEC member's oil for years been striving for a mounting excess over the market price. It is now reaching the beginnings of a new era, as the market price has fallen to the point where it is now less than the OPEC price. This is a significant change, as it means that OPEC is now selling its oil at a discount to the market price. This is a significant change, as it means that OPEC is now selling its oil at a discount to the market price. This is a significant change, as it means that OPEC is now selling its oil at a discount to the market price.

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These curbs mooted for the Euro-
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ng needs focus on raising oil bills,
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ratio of debt service to ex-
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die income countries averaged 11.8 percent in 1977, but reached 24 percent for Latin America and the Caribbean. By 1985 and 1990, on present trends, debt service could reach nearly 20 percent for the group as a whole, between 25 percent to 28 percent for Latin America and Sub-Saharan Africa, absorb up to 5 percent of Gross National Product, the Bank adds.

These levels, considered as not too dangerous by bankers, are seen as unacceptable burdens by the debtor countries. And there is worry about the "bunching" of maturities on short-term debt over the next five years when 70 percent of developing countries' debt to private lenders, and 24 percent to government lenders, fall due for repayment.

During 1978, this "bunching" was to some extent relieved by a voluntary refinancing procedure, but the World Bank Development Report warns that "concern about the maturity structure of external

debt arises not because creditors will be unable to roll over the repay-

ments of principal when they become due, but because the larger the proportion of debt that is subject to annual review and recommitment, the greater the danger that initial changes impairing a country's debt situation could trigger loss of confidence and a debt crisis. The concentration of private debt among debtors and creditors makes lenders sensitive to developments in the borrowing countries. Seven countries — Algeria, Argentina, Brazil, Indonesia, Mexico, Spain and Yugoslavia — accounted for over half the debt outstanding to private creditors in 1977."

Money-Center

The World Bank adds that among U.S. banks, three-fourths of the total claims on developing countries, estimated at around \$50 billion, are held by 10 large money-center banks. During 1977 and 1978, however, non-U.S. commercial banks, especially in Germany and Japan, have expanded lending much faster than U.S. banks, at an annual rate of around 30 percent.

Between 1956 and 1978, twelve developing countries benefited from 39 debt consolidation negotiations with creditors, covering some \$12

billion public debts. (Argentina, Brazil, Chile, Ghana, Indonesia, India, Khmer Republic, Pakistan, Peru, Sierra Leone, Turkey, Zaire). Turkey benefited from another \$2 billion bail-out organized by the OECD this summer. Sudan and Togo have just completed renegotiations, and Zaire is scheduled for a further round next month.

End of month	Reporting European area	
	Total 2	of ad non-1

1976	December	74.4	51
1977	December I	99.2	69
	December II	110.4	77
1978	March	113.6	80
	June	117.8	82
	September	127.0	87
	December I	134.0	92
	December II	139.5	94
1979	March	141.8	96
	June	147.6	100
	December	86.7	45
1977	December I	106.6	54
	December II	117.3	56
1978	March	123.2	58
	June	131.0	62
	September	140.5	66
	December I	142.5	70

December 11	146.5	20
1979 March	150.5	73
June	163.0	81

1 By to United Kingdom 1977 (December 13) the
and the United Kingdom. Since 1977
view of Austria, Germany and
2 Includes: (a) under "Base", the bank
banks to the commercial banks of the
deposits by official monetary institutions
obtained by the reporting banks from
view of Austria, Germany and
to the extent that they are not included
3 Encompassing positions of banks located
4 Bahamas, Barbados, Bermuda, Cayman Islands,
Yugoslavia
5 Algeria, Bahrain, Brunei, Ecuador, El
Bahia, Venezuela
7 Including positions via bank-to-bank transfers

Brazil, Chile, Peru, Indonesia, and Zaire have been conducted inside the so-called Club of Paris, an informal group of Western countries chaired by a French Treasury official (at present Mr. Michel Camdessus).

Renegotiations have taken place when debtors were either late with payments, had suspended them, or were on the verge of doing so.

Sources and Use			
United States	Canada and Japan	Other developed countries	

9	18.2	21.6	33.0
9	21.0	18.7	42.6
3	21.3	18.7	30.8
3	18.5	20.4	31.9
3	19.6	20.8	31.9
0	22.0	21.8	32.9
0	24.6	24.6	34.7
5	24.6	24.6	34.7
2	25.6	26.3	34.0
9	30.6	27.5	36.1
5	18.8	10.5	21.3
9	24.9	8.4	26.6
0	25.4	8.4	18.8
8	28.9	9.6	20.0
1	26.5	9.7	21.6
3	29.1	11.3	25.2
1	37.0	13.0	26.2

[illegible]

Creditor governments agree to negotiate bilaterally on the basis of the same or similar repayments terms, usually fairly short in time, with the debtor usually obliged to have agreed on a stabilization program with the IMF as part of a "stand by agreement" allowing it to draw on successive "tranches" (25 percent of its total quota with the Fund).

s of Euro-Currency			
Eastern Europe ⁴	Offshore banking centres ⁵	Oil-exporting countries ⁶	D
Billions of US dollars			
Uses			

20.8	40.8	9.6
23.8	43.7	15.6
25.7	43.9	15.7
27.0	43.4	17.8
28.5	44.6	18.6
31.2	51.5	21.0
31.4	55.0	24.3
31.4	55.0	24.3
30.9	33.2	24.2
32.6	59.1	26.3
Sources		
6.4	30.1	45.2
6.4	33.2	54.0
7.0	33.4	54.5
6.6	33.9	54.5
6.9	35.5	51.4
7.7	39.7	52.6
8.8	45.4	54.7

8.8	45.4	54.7
7.7	43.7	56.3
7.8	46.0	58.6

Private bankers also come together in their own informal grouping "The Club of London," recently making roll over of credits conditional both on an IMF standby and consolidation of public debts.

This approach to debt has caused more problems than it has solved, developing countries claim. The IMF stabilization agreements, aimed at essentially achieving bal-

Developing countries	Un-allocated ⁷	Total

24.7	3.9	247.0
300.0	5.4	300.0
303.3	3.2	300.0
311.8	3.6	310.0
337.7	3.5	319.0
366.6	4.0	348.0
401.1	4.3	375.0
401.1	2.8	377.0
445.5	3.5	384.0
488.7	3.7	422.0
21.3	6.7	247.0
29.5	8.4	300.0
29.6	5.6	300.0
31.3	4.0	310.0
33.1	3.3	319.0
37.3	4.6	348.0
39.6	3.8	375.0

39.8	7.6	377.0
42.4	7.7	384.0
44.6	7.7	412.0

Netherlands, Sweden, Switzerland
 1977 (December 31) positions

Funds supplied by the reporting
 countries (a); (b) under "Sources",
 currency and foreign currency funds
 involved in DR from German banks.
 Includes within the reporting area and
 banks themselves.

Singapore, other British West
 Indies and Tobago, United Arab
 Emirates

November 1979

ance of payments equilibrium and exchange rate stability, has often involved harsh deflationary measures, a sharp drop in economic growth, with the burden of adjustment falling most heavily on the poorest income groups. IMF insistence on slashing food price subsidies sparked off riots in Egypt, and other programs caused political crises in Turkey and Peru. It is

IMF insistence on liberalization of import and exchange controls has often created severe balance of payments problems, leading to subsequent devaluations. An internal IMF study on the impact of standby arrangements and related policies between 1963 and 1972 concludes that in 75 percent of the cases, measures adopted did not reduce

Trap

The director of the Paris-based Center for International Development, Juan Carlos Sanchez Arnaiz, warns that developing countries are now locked into a "debt trap." They are forced to borrow increasing amounts to service past debts and carry out stabilization programs with little relevance to the country's basic economic needs.

Private banks, he adds, favor economic systems in which multinational corporations have a key role. Finance is thus available for either "import substitution" industries catering to the rich minority, but requiring imported capital, technology, spare parts and sometimes raw materials to function, thus adding to balances of payments problems. Or to the service sector, "exporting" to the foreign market.

This March, the IMF's conditionalities rules were slightly relaxed, with explicit disallowing of stand-by arrangements could be extended beyond the normal one-year period to three years "in appropriate cases," and that performance targets would be made a bit

more flexible and dropped for stand-bys not going beyond the countries first "tranche."

A more "development oriented" approach to debt seems on the way, following a series of negotiations inside the UN Conference on Trade and Development (UNCTAD). In March, Western debtors decided to cancel some of the debts of the poorest countries, so far amounting to \$5.6 billion or 24 percent owed on official bilateral loans by 42 countries. (See Table)

Blocked

If this obstacle can be overcome, UNCTAD officials see a new approach being formally agreed on next March. The chairman of the Paris Club would still be Mr. Camdessus, but instead of acting on behalf of creditors, he would play a completely independent role. Debtors would be able to hold wide-ranging prior consultations with officials of UNCTAD, IMF and the World Bank before calling for a creditors' meeting. Debt negotiations would be conducted according to a series of agreed "features." These would include not only consideration of the immediate balance of payments problem, but also long-range planning, including social, financial and transfer of resources problems, resolution of

This new approach will hopefully "open the 'debt trap,'" a little. But in the end, it is a completely new world financial system, as well as a critical look at present development philosophies in developing countries, it looks as if the Third World will keep on piling up debts for some time yet.

Estimated Sources and Uses of Euro-Currency Funds

End of month	Reporting European areas ¹		United States	Canada and Japan	Other developed countries	Eastern Europe ⁴	Offshore banking centres	Oil-exporting countries ⁵	Developing countries	Un-allocated ⁷	Total
	Total ²	of which non-bank ³									
in billions of US dollars											
	<u>Base</u>										
1976 December	76.4	31.5	18.2	21.6	33.0	20.8	40.8	9.6	24.7	3.9	247.0
1977 December I	99.2	69.9	21.0	18.7	42.6	23.8	43.7	15.6	30.0	5.4	300.0
December II	110.4	77.3	21.3	18.7	30.8	25.7	43.9	15.7	30.3	3.2	300.0
1978 March	115.6	80.3	18.5	20.4	31.9	27.0	43.4	17.8	31.8	3.6	310.0
June	117.8	82.3	19.6	20.8	31.9	28.5	44.6	18.6	33.7	3.5	319.0
September	127.0	87.0	22.0	21.8	32.9	31.2	51.5	21.0	36.6	4.0	348.0
December I	136.0	92.0	24.6	24.6	34.7	31.4	55.0	24.3	40.1	4.3	375.0
December II	139.5	94.5	24.6	24.6	34.7	31.4	55.0	24.3	40.1	2.8	377.0
1979 March	141.8	96.2	25.6	26.3	34.0	30.9	53.2	24.2	44.5	3.5	384.0
June	147.6	100.9	30.4	27.5	36.1	32.6	59.1	26.3	48.7	3.7	412.0
	<u>Sources</u>										
1976 December	86.7	45.5	18.8	10.5	21.3	6.4	30.1	45.2	21.3	6.7	247.0
1977 December I	108.6	54.9	24.9	8.4	26.6	6.4	33.2	54.0	29.5	8.4	300.0
December II	117.3	56.0	25.4	8.4	18.8	7.0	33.4	54.5	29.6	5.6	300.0
1978 March	123.2	58.6	26.9	9.6	20.0	6.6	33.9	54.5	31.3	4.0	310.0
June	131.0	62.1	26.5	9.7	21.6	6.9	35.5	51.4	33.1	3.3	319.0
September	140.5	64.3	29.1	11.3	25.2	7.7	39.7	52.6	37.3	4.6	348.0
December I	142.5	70.1	37.0	13.0	26.2	8.8	45.4	54.7	39.8	7.6	375.0
December II	144.5	70.1	37.0	13.0	26.2	8.8	45.4	54.7	39.8	7.6	377.0
1979 March	150.5	73.1	36.4	13.3	26.0	7.7	43.7	56.3	42.4	7.7	384.0
June	163.0	81.4	42.3	13.9	28.1	7.8	46.0	58.6	44.6	7.7	412.0

1 Up to December 1977 (December I) the reporting European area covered Belgium-Luxembourg, France, Germany, Italy, the Netherlands, Sweden, Switzerland and the United Kingdom. Since 1977 (December II) it also includes Austria, Denmark and Ireland. Conversely, as from 1977 (December II) positions vis-à-vis Austria, Denmark and Ireland are excluded from the positions vis-à-vis "Other developed countries".

2 Includes: (a) under "loans", the banks' conversions from foreign currency into domestic currency and foreign currency funds supplied by the reporting banks to the central bank of the country of issue of the currency in question (such as EM funds deposited with German banks); (b) under "foreign deposits" the official monetary institutions of the reporting area, the banks' conversions from domestic into foreign currency and foreign currency loans obtained by the reporting banks from the banks in the country of issue of the currency in question (such as funds received in DEM from German banks).

3 On the sources side including transfer funds to the extent that they are transmitted by the reporting banks to the other banks within the reporting area and to the extent that they are not reported as liabilities vis-à-vis banks outside the reporting area by the banks themselves.

4 Includes the positions of the Bank for Social Payments of Germany vis-à-vis the German Democratic Republic.

5 Bahamas, Barbados, Bermuda, Cayman Islands, Hong Kong, Lebanon, Liberia, Netherlands Antilles, New Hebrides, Panama, Singapore, other British West Indies.

6 Algeria, Bahrain, Brunei, Cambodia, Cote d'Ivoire, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates, Venezuela.

7 Including positions vis-à-vis international institutions other than IEGs.

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Oil: 'Balanced on a Knife Edge'

By Richard D. Lyons

WASHINGTON — In a phrase that has become almost a cliché in energy circles, the world demand and supply of oil is "balanced on a knife edge." The phrase has been used over and over again here by the Carter administration, a British Cabinet minister, a top official of the Common Market and the Saudi oil minister, Sheikh Ahmed Zaki Yamani.

Perhaps because of the delicate balance, oil itself has become a knife — a weapon that is as effective in dealing with geopolitical disputes as combat troops and jet fighters. President Carter and his Western allies not to increase their imports. The ayatollah said he would refuse to sell oil to the United States, anyway. Iran then said it would withdraw its billions of dollars on deposit in American banks — revenues from the sale of oil. Mr. Carter thereupon froze the Iranian deposits.

The United States — as well as the other major industrialized nations — is becoming ever more vulnerable to the power of the oil weapon. Six years ago, when the Organization of Petroleum Exporting Countries first deployed it in boycotting sales to the West during the war against Israel, the United States imported about 2.4 million barrels of oil a day from the Arab producers.

Yet, astonishingly, the latest data show that the United States now is importing more than twice as much from OPEC — 4.9 million barrels daily despite a half dozen years of rhetoric about the need for decreasing the United States' reliance on foreign oil.

Saudi Oil

The fact that Saudi fields account for one out of every 10 barrels of petroleum products being used in the United States today underlies the deferential, almost fawning treatment Sheikh Yamani was ac-

'Col. Qadhafi's threats, the last of which was followed by the dispatch of a senior State Department official to Libya to soothe the chief of state, have also been followed by major price increases.

corded by official Washington while paying a visit here last month. As evidence of the almost naked power that the Saudis have over the U.S. economy, even some Cabinet secretaries went out of their way to stop by Sheikh Yamani's hotel for a chat.

This wooing of officials from oil exporting nations was even more apparent in the reciprocal visits early this year of Mr. Carter to Mexico and its president, Jose Lopez Portillo, to Washington.

One serious source of friction between the two neighbors was the agreement by which the United States would buy 300 million cubic feet a day of Mexican natural gas.

While the amount is relatively small about one half of 1 percent of U.S. consumption, the settlement of the long-standing dispute over prices and amounts of gas at the very least moves the two countries closer toward U.S. purchases of other Mexican natural resources.

With an eye toward imports of oil from Nigeria, now the second largest exporter to this country, the State Department in the 1960's and early 1970's went to great lengths to steer U.S. support away from the Biafran secessionists, despite widespread emotional support among Americans for the plight of people living in the rebel areas.

Nigeria as an energy supplier has risen to the point that in May, the

latest month for which figures are available, it sold the United States more than a million barrels of crude daily, one-sixth of domestic imports.

Such were the overtones when Andrew Young, the former chief U.S. delegate to the United Nations and a man highly regarded in black Africa, visited Lagos as a member of a U.S. trade mission two months ago.

And the State Department has supported Nigeria's position on the Zimbabwe Rhodesia political problem, during the course of which Nigeria nationalized the British Petroleum Company's 20 percent holding in a joint development venture.

Also in May, Libya supplied U.S. refiners with slightly more than 10 percent of their imported feedstocks, at a rate of 644 million barrels a day.

Col. Moamer Qadhafi, the Libyan leader, has repeatedly warned that he would cut off oil exports to the United States but has failed to carry out the threat in the face of the huge amounts of money involved, perhaps \$5 billion this year from U.S. oil companies, some of which is used to bankroll international terrorist activities, although most goes toward expansion of the economy.

Col. Qadhafi's threats, the last of which was followed by the dispatch of a senior State Department official to Libya to soothe the chief of state, have also been followed by major price increases.

As a measure of the impact on national coffers, before the Arab embargo Libya received about \$1 million a day as proceeds of the nationalized oil industry.

Power and Money

Thus oil is not only power money, in the case of the Arab exporters, oceans of it. Since Arab oil embargo generated price increases for crude, OPEC nations have received at least \$20 billion in revenue, perhaps \$40 billion of which was spent on services and military expansion, mainly supplied by industrial nations.

Again, the very dimensions of the amount of OPEC money in the United States and other nations give the oil exporters leverage into the affairs of other nations — eventually — the U.S. Union.

Economic analysts of the Central Intelligence Agency told a Congressional committee last month the Soviet oil industry, once net exporter of a million barrels a day to Eastern and Western Europe, has peaked and is starting to fall off.

The net result, they testify, that in the face of increased demand and resources, by Moscow will be forced to import 700,000 barrels of crude a day — the Middle East. Thus the Union will be in direct competition for supplies with the other industrialized nations and this head-to-head aspect can only drive prices higher.

It is impossible to state this new potential for use of an energy and financial weapon. In August, the CIA, in its National Foreign Assessment Center, issued an 80-page paper entitled, "The World Market in the Years Ahead."

After factoring tens of thousands of pieces of data in scores of graphs, the paper concluded dealing with the issue of supplies: "No matter how events of 1979 sort themselves out, the outlook for oil supplies over the next few years is poor. The supplies available to the West industrial countries are unlikely to increase significantly and may fall."

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Special ships for special needs: Meet NYK's new heavyweight champion

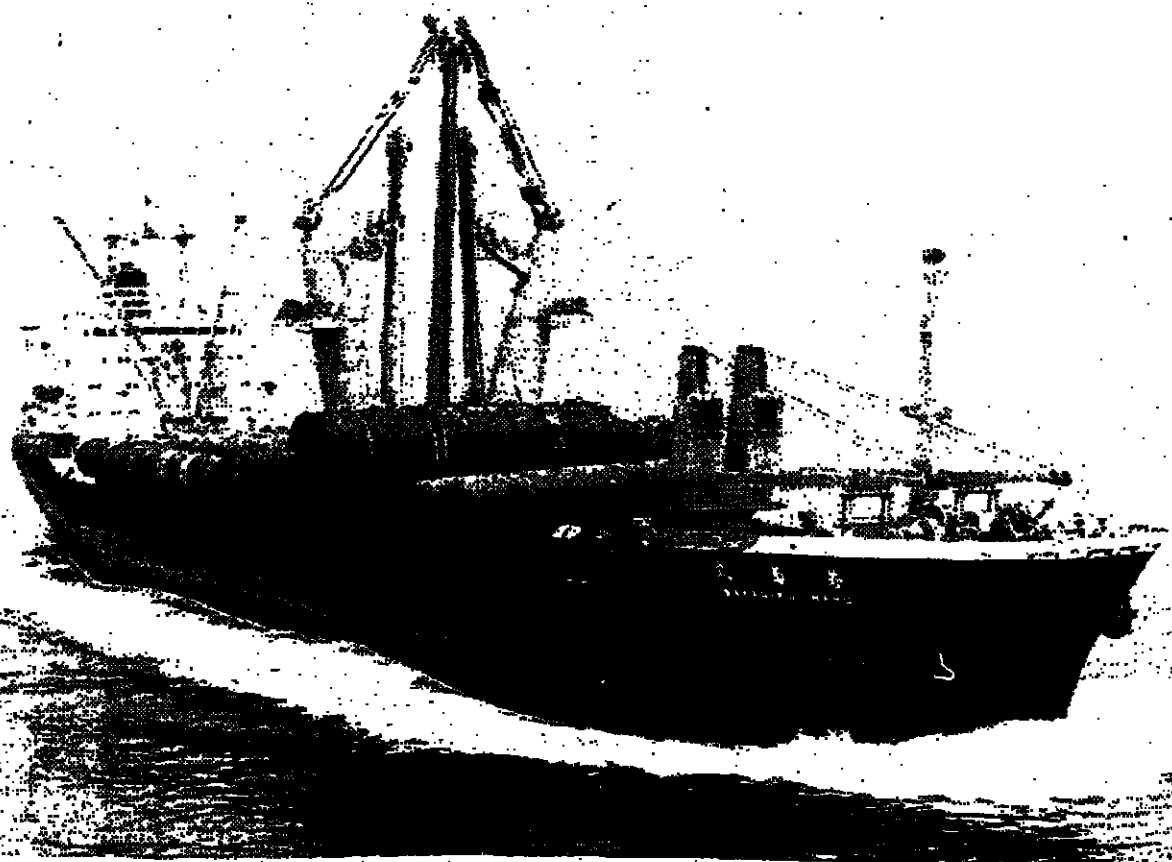
NYK's Wakagiku Maru is a super-heavy lifter equipped with a 500-ton derrick. It also has a set of 31-ton twin traveling cranes, two sets of 20-ton standard cranes and a set of 25-ton twin derrick cranes. On its maiden voyage in February 1978, it carried 20,000 tons of plant equipment from northern Japan to the Persian Gulf.

With the growing trend toward export of complete industrial plants, there is much demand for heavy lifters to transport huge plant equipment to oil-producing and developing countries. NYK's fleet of seven heavy lifters with a capacity of more than 100 tons each, is well-qualified to meet this growing need.



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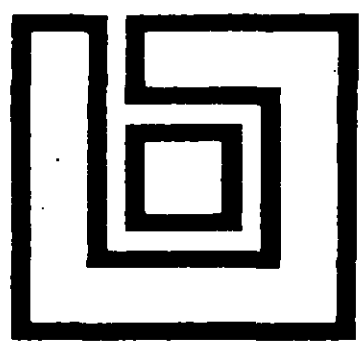
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(Continued from Page 115)

rate treasurers actively began to use their temporarily investable balances to purchase short-term money market instruments. This investment strategy inhibited the growth of corporate deposits at large money market banks.

In addition, the unavailability to banks of a flexible instrument with which to augment their conventional deposit sources meant that, in periods of monetary restraint, the share of bank credit in total credit flows to nonfinancial sectors (business, state and local governments, housing, and consumers) declined.

State of Affairs

Responding to this state of affairs, the First National City Bank of New York (now Citibank) began to offer CDs to domestic business corporations. Public bodies, and foreign investors in February 1961. The primary objectives were to increase corporate deposits and to allow banks greater discretion over their sources of funds, so that in a period of rising loan demand and increasing interest rates they could accommodate increases in short-term credit demands by expanding their CDs. Otherwise, they would have to turn down profitable loan applications or sell some of their investments, possibly at a substantial loss. The ability of banks to "buy" funds by paying market rates of interest added greatly to their flexibility and was the key element in their ability to shift to liability management.

CDs had existed in negotiable form for years prior to 1961, but they could not become an important source of funds for banks until they could compete with other short-term money market instruments. To do so, they had to be readily marketable and to pay a market rate of return. The crucial innovation in February 1961 was the secondary market for large negotiable CDs (provided initially by the Discount Corp. of New York, a dealer in U.S. government securities). The secondary market made CDs a truly liquid money market instrument by establishing a means through which an investor could sell his holdings quickly and at low cost prior to maturity. Other large banks promptly began to issue

CDs, and other dealers soon entered the secondary CD market.

The expansion of CDs in the early 1960s was rapid and steady. The smooth and impressive growth of outstanding from February 1961 through the middle of 1966 reflected increasing acceptance of this new money market instrument. However, the CD rates which member banks — virtually the only banks issuing CDs — could pay were subject to the interest ceilings of the Federal Reserve's regulation Q. The 1 percent ceiling rate on time deposits of less than three months' maturity prevented CDs in this range from being issued.

Moreover, the market for long-term CDs was affected in late 1961, when three-month treasury bill rates edged upward and exceeded the 2½ percent ceiling rate in effect for three to six-month CDs. At that point, only CDs of six-month or longer maturities on which the ceiling rate was 3 percent could be sold by banks, and these also became difficult to sell as the six-month treasury bill rate approached 3 percent.

At the beginning of 1962, the Federal Reserve raised the ceiling rate for CDs of six- to 12-month or greater maturity to 4 percent. As a result of this change, banks were able once more to market CDs in the longer maturity range but were effectively prevented from issuing shorter maturities. A year and a

half later, in July 1963, ceiling rates for CD maturities of three months and longer were fixed at 4 percent.

Meanwhile, the ceiling rates on long- and short-term CDs allowed dealers and corporations to buy long-term CDs, to hold them until only a short term to maturity remained, and then to sell them in the secondary market without fear of being undercut by banks offering competitive rates on newly issued short-term CDs. In addition, since long-term CD rates generally exceeded short-term CD rates, while both remained relatively stable, dealers profited during the first half of the 1960s by buying long-term CDs, holding them in inventory, and then selling them as short-term CDs. As long as rates were stable, this investment strategy — called "riding the yield curve" — increased their total interest return by an amount depending on the spread of the long-term CD rate over the short-term CD rate.

Artificially Low

The artificially low regulation Q ceiling on short-term CDs remained in effect until November 1964, when the maximum rate on CDs of 30- to 89-day maturities was raised to 4 percent, and the rate on longer term CDs was raised to 4½ percent. This change allowed banks to make competitive rate offers on CDs in the 30- to 89-day range for the first time. It thus put an end to the artificial stimulus to the growth of the secondary market. From the end of 1963 to the middle of 1966, the value of CDs outstanding nearly doubled, reaching \$17.8 billion, while the daily average of gross dealer transactions changed little and remained at a modest level.

In response to rising interest rates, the existing regulation Q ceiling rates were raised to a uniform 5½ percent for all CD maturities in December 1965 in order to prevent banks from encountering difficulty when renewing (rolling over) their existing CDs. However, other market rates soon exceeded the new ceiling, and the CD market reacted immediately. Issuance of CDs and outstandings started to fall.

Rates on CDs with longer maturities ran up against the ceiling in about the middle of 1966. Consequently, new issues of such maturity of outstanding CDs began a sharp decline. The runoff of CDs from

August to December 1966 reached a sizable \$2.9 billion, a decrease of about 16 percent from the August level. In the five years since the introduction of negotiable CDs, banks had never undergone a comparable experience.

Significant Effects

The effects were also significant in the secondary market, where a rapid rise in rates — to which regulation Q, of course, did not apply — resulted in considerable book losses for holders of outstanding CDs. Investors reacted by cutting back purchases of new CDs and holding the CDs already in the portfolios. Thus market transactions as well as dealer positions were greatly reduced. Gross transactions in the secondary market declined to a level even lower than that observed in 1963, when data first began to be collected.

The pressures in the CD market caused by regulation Q ceilings abated in December 1966, when interest rates started to decline rapidly. Pressures resumed in 1967 as rates on longer maturities again rose to the ceiling rate and made the average maturity of outstandings contract sharply. Early in 1968, when other market rates declined and the regulation Q ceiling for longer term CDs was raised to 6½ percent, pressures on the CD market were relieved once more.

During the 1966 "credit crunch," banks found that CDs were a potentially unreliable source of funds. In reaction, some large banks began to develop alternative sources of funds, particularly Eurodollars, on which rates were not subject to regulation. A few U.S. banks had used Eurodollars prior to 1966, but in that year gross borrowings from foreign branches rose to about \$2 billion for the first time. It was also in the same year that the London dollar CD was introduced by the London branch of Citibank. The establishment of facilities for tapping the Eurodollar market during the 1966 credit crunch proved to be important during the 1969-70 crunch, when banks faced an even greater runoff of CDs.

In much of the postwar period, regulation Q interest rate ceilings for member banks were set below the rates that thrift institutions specializing in housing finance were paying. In this way, cross-inter-

mediation — i.e. the shift of deposits from thrift institutions to commercial banks — was prevented. It was widely thought that preventing such a shift would encourage home building.

The increase in time deposit rates paid by commercial banks after the December 1965 adjustment of regulation Q ceiling rates appeared to observers to have contributed to outflows of deposits from thrift institutions in 1966. Accordingly, the monetary authorities requested, and the Congress promptly passed, legislation permitting different ceiling rates for time and savings deposits by thrift institutions.

In September 1966, the ceiling rate of commercial bank time deposits smaller than \$100,000 was reduced to 5 percent, while the ceiling rates for savings deposits and large

negotiable CDs were left unchanged at 4 percent and 5½ percent, respectively. Although these actions may have reduced the threat of cross-intermediation, later events showed that rigid reliance on interest rate ceilings made both commercial banks and thrift institutions more susceptible to serious disintermediation — i.e. the withdrawal of deposits and savings money market instruments, according to maturity. However, despite the change in ceilings, rates on new issues of CDs with shorter maturities were uncompetitive throughout most of 1968 and toward the end of that year the same happened to longer term CDs.

In 1969, as monetary policy attempted to dampen inflationary pressures, market rates rose rapidly to the vicinity of 8 percent, while far exceeded regulation Q rates. To ceilings were left unchanged, for a monetary authorities hoped that a restriction of bank access to the CD market would both reduce the one-sided expansion of credit and encourage banks to reduce the rate of their expansion of credit to business, thereby to lessen the financial squeeze on other sectors, such as housing and state and local governments.

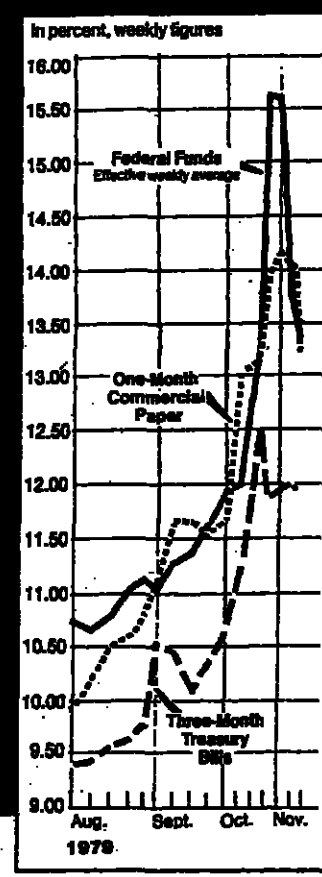
Consequently, between December 1968 and December 1969, banks were buffeted by the involuntary runoff of CDs even as investors sought more attractive turns available on other money market instruments. Outstandings declined by \$12.6 billion, a loss more than 30 percent, from December 1968. Thereafter, outstandings stabilized at a depressed level during the first half of 1970.

The CD runoff during 1969 would have been even larger if not banks began to take advantage of the exemption of deposits of foreign official institutions from regulation Q ceilings. During the second half of 1969 and the first quarter of 1970, banks were able to issue CDs issued to foreign official institutions by about \$2 billion, which offset some of the decline of CDs held by other investors.

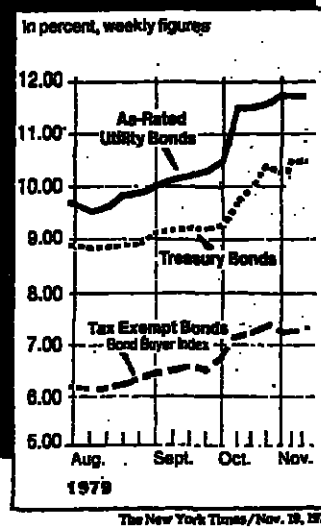
The composition as well as level of CDs was affected by runoff. With the severe fall in issues of CDs, the average maturity

(Continued on Page 155)

Short-Term Rates



Long-Term Rates



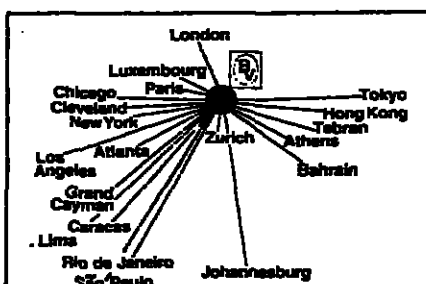
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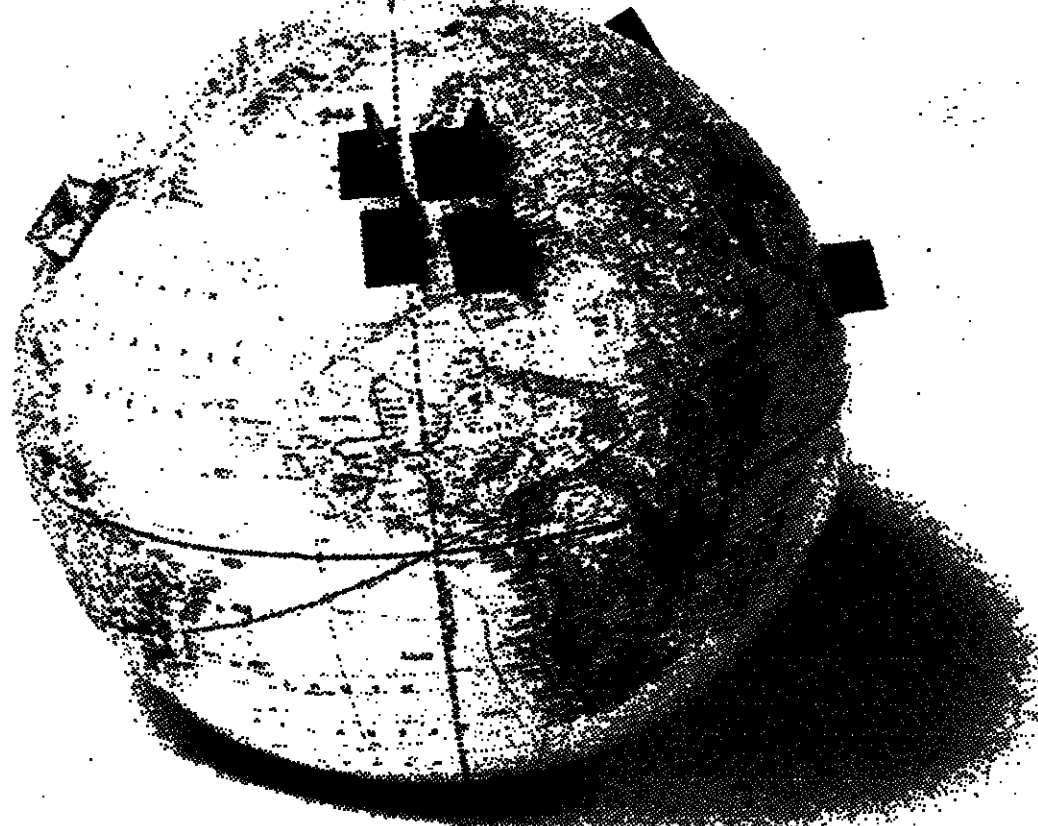
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*Source: Institutional Investor

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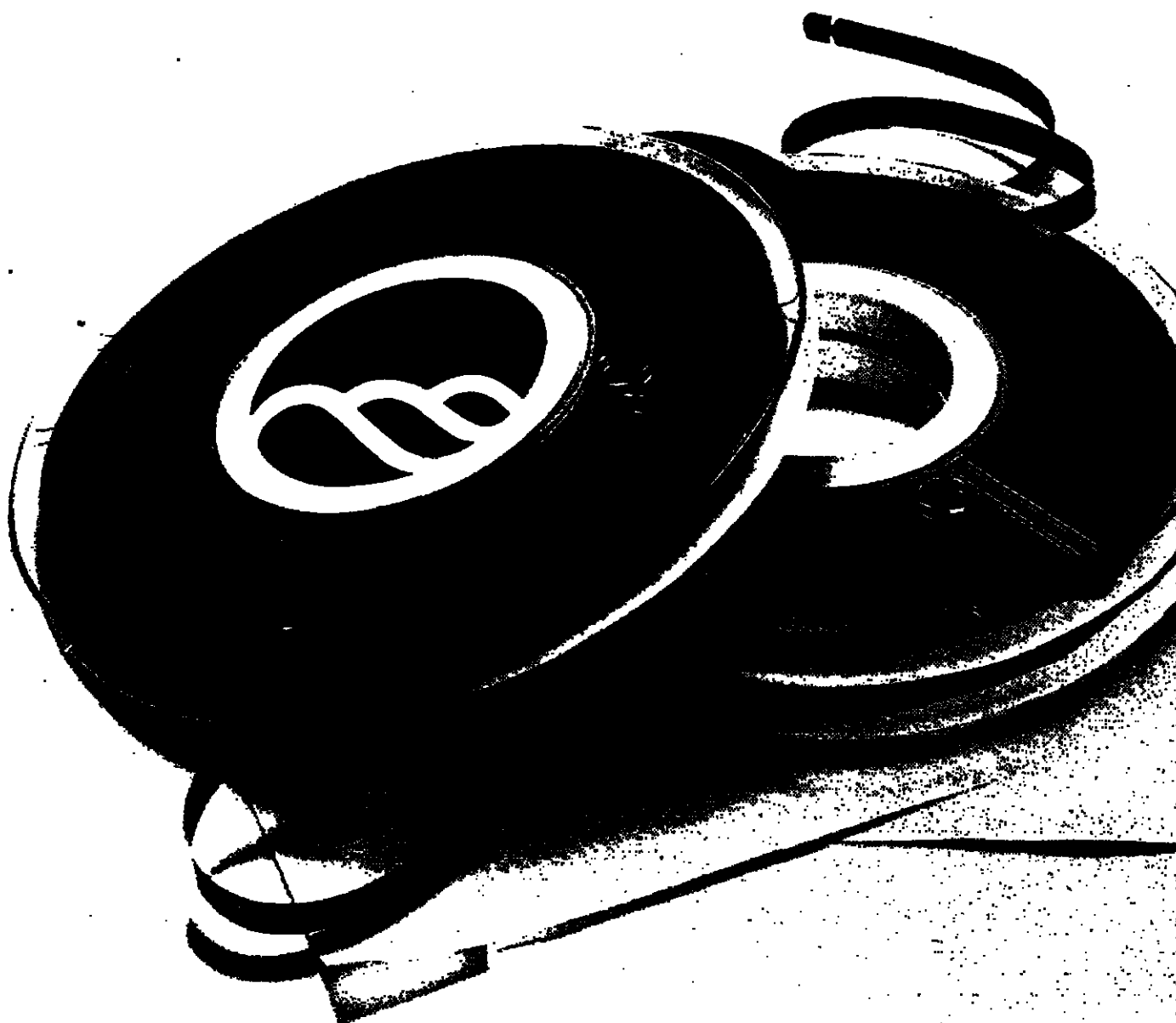
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Euromarkets

An Array of Debt Instruments

(Continued from Page 78)
firms are usually issued in small denominations of \$1,000, which is suitable for the small investor.

When the yield curve is inverse, as it is today with interest rates sloping down as the maturity lengthens, firms should be attractive to investors because their coupon rates vary with short-term rates.

One possible concern is that when short-term interest rates fall, the price of these firms would drop, an unlikely event because of the aggressive presence of banks which buy firms as liquid substitutes to floating-rate loans. In addition, the transaction costs charged by banks for switching into fixed-rate bonds is high. This is why Eurobankers have developed conversion features. The two main types are:

(1) automatic conversion: the paper is a floater but at any time, the investor can convert into a fixed-rate bond, offering a coupon already attractive at the time of issue. This is good for the investor but burdensome for the borrower.

(2) drop locks: a floater which is automatically converted into a fixed rate bond when short-term or long-term rates drop below a certain level. This is better for the borrower but not necessarily fair to the investor.

If the floater locks on the basis of short-term rates, then the investor may find that the coupon rate is fixed at a level below those of comparable fixed-rate issues. Hence the price of his drop lock issue would decline to bring the yield back in line with market conditions. Conversely, if the drop lock is triggered on the basis on long-term rates, an investor could receive low coupon payments on the assumption that short-term interest rates decline substantially before long-term rates do.

The market has so far not been too enthusiastic about drop locks and, in general, most private investors still dislike floaters.

Floating rate CDs (up to 3 or 5 years, coupon of 1½ to 1½ above 3- or 6-month Libor) have been designed for institutional investors (big denominations, no listing) seeking liquidity and good returns.

So far the largest amounts of firms and CDs are being bought by banks. They are also issued by banks which use them to improve their ratios of long-term loans to long-term funds.

One peculiarity is that banks make loans on a floating rate basis to borrowers who would prefer fixed rates, then finance these loans by issuing floating rate notes and trying to sell them to investors who would prefer fixed-rate bonds. The deutsche mark is becoming the main currency of the international capital markets. German authorities have discouraged the sale of domestic bonds abroad by imposing a withholding tax (the "Kuponsteuer") on coupons cashed by non-residents.

The dm market offers foreign bonds with a "Euro-flavor." These bonds are issued by non-German borrowers and are aimed at international investors who do not pay withholding taxes on them. Yet they are usually listed on German stock exchanges and issued by German-dominated international syndicates.

"The trend is undoubtedly upward," said an official at the Organization of Economic Cooperation and Development. The prospects for a continuation of this trend, he added, were reinforced with the recent announcement by Iran that it might increase its spot market sales of crude oil in lieu of sales to U.S. companies."

These bonds are straight or convertible bonds. Straight bonds (of any quality) offer yields close to domestic yields but usually lower, since their return is net. Convertible dm bonds offer lower yields, but often represent a good way to speculate on a volatile currency and/or stock exchange price of the borrower. They provide good downwards protection, since the bonds are repaid at 100 percent in dm at maturity. Foreign bonds are in denominations of 1,000 deutsche marks.

Institutions and big private investors tend more and more to shift their holdings from dm eurobonds to "schuldscheine." The latter is not a bond, but rather a nominative certificate, representing a loan made to the borrower who is usually a German institution (Landesbank, post office). They are not subject to the "Kuponsteuer." They are available from 100,000 dm upward. Given the transfer costs, they become really attractive for amounts of at least 500,000 dm. Maturities are from 1 to 10 years. Their yields are based on the domestic markets. Their nature makes them more difficult to transfer and thus they are slightly less liquid than Eurobonds. Being domestic instruments, they are much less volatile than foreign bonds whose prices and liquidity depend very much on whether the dm is more or less in fashion internationally.

When foreign bonds carry much lower yields than domestic paper, institutions concentrate on schuldscheine.

Banned
Cd's and floating rate instruments in dm are banned by the Bundesbank.

The Euro-dm deposit market (mainly based in Luxembourg) offers possibilities to make short-term investments at rates close to domestic rates.

For Euro-dm bonds as well as for Eurodeposits, the interest rates tend

to be slightly below domestic rates. Often the rest of the world is speculating on dm appreciation and the demand for dm assets is usually bigger than the demand for dm liabilities. The spread between Euro and domestic rates is a good indication of the amount of speculation on the dm.

The Swiss franc market is an important one. Domestic bonds are subject to tax but foreign bonds are not and offer better yields (3½ percent in general).

Public foreign bonds are very liquid, 10 to 12 years in maturity. They are issued by purely Swiss syndicates and sold freely to non-residents. However, restrictions are sometimes imposed when speculation on the sf is intense.

Private placements are done for 5 to 7 years maturity, in big denominations (50,000 sf) and are not transferable.

There are no Euro-sf issues outstanding.

Foreign swiss franc convertible issues are done, mainly for Japanese companies these days, with little yield sacrifice compared to straight bonds. The Dutch guilder capital market is probably the most liberal in the world. Domestic bonds and foreign bonds are tax free, and foreign banks participate in the underwriting of foreign issues, even purely domestic issues. Maturities on the domestic market are rather long (10 to 15 years with average life between 5.5 and 10 years). Liquidity is very good. Yields on foreign bonds (usually for prime borrowers) is slightly better than on domestic bonds.

Mortgage letters (pandbrieven) issued by mortgage banks are high-yielding (1½ percent above bonds), prime quality and very liquid instruments. They are easily accessible to non-residents, tax free, and are becoming increasingly known internationally.

Eurobonds (called Euro-guilder notes) are issued in the form of pri-

vate placements with maturities to 7 years. Yields are usually higher than on domestic paper. They are not sold in the Netherlands. They are aimed at international investors looking for short-guilder assets. Liquidity is good, prices are volatile.

Volatile

The yen has become an important international currency, the volatility in the last two years puzzled many investors.

Domestic bonds are subject to tax. Foreign bonds (Eurobonds) are tax free for non-residents, and yields are close to domestic yields. Liquidity is good but the paper cannot be sold out of Japan.

Euro-yen bonds have been sold from time to time. The paper is freely transferable, yields are higher than on samurai bonds but less is better. In yen, 11 sam money market instruments are available: count bonds and CDs issued by banks and international banks; net yields often higher than in yen deposit rates.

Domestic bonds in Belgium are a 20 percent withholding tax for residents and non-residents. Foreign bonds are issued occasionally by international institutions, tax free to non-residents. The on these foreign bonds is close to domestic yields.

In the Luxembourg capital market, domestic and foreign bonds are free of tax. Yields are slightly below those of domestic and foreign bonds in Belgium. Public issues are in 10 years in 10,000,000 francs. Private placements are in 1 million francs with yields about 14 percent in public issues.

In sterling, the domestic market offers excellent investment opportunities. Many of the government bonds are tax free to non-residents who register them. The market is deep and liquid. Maturities range from one to 25 years. To avoid restrictions, non-residents can also Euro-sterling bonds, but this highly volatile market and liquid is not too good. Yields are close to domestic yields, above or below depending on the sterling's trend.

Composites

In the French franc market, domestic bonds are taxed. Eurobonds are issued regularly with close to the domestic yields. Borrowers are of prime quality and liquidity of the secondary market is quite good. Maturities are from 10 years. The bonds are issued by French-dominated international syndicates and marketed all over the world.

Eurobonds are regularly issued in artificial currencies. Since currencies have fluctuated considerably, one reason why investors into international markets is because they consider their own currency not stable enough.

Bankers have tried to achieve stability by creating composite currencies. Two main types have been used. The European unit of account (at every official re-evaluation parities with a group of currencies in the European monetary system. This represents a link with the... (Continued on Page 168)

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Euromarkets

The Market for Large, Negotiable U.S. Certificates of Deposit

Another recent innovation has the potential of altering somewhat the character of the market as well as lengthening maturities. It is the rollover CD introduced by Morgan Guaranty Trust in late 1976.

Another recent innovation has the potential of altering somewhat the character of the market as well as lengthening maturities. It is the rollover CD introduced by Morgan Guaranty Trust in late 1976.

an investor may default on his future commitment to roll over the six-month. The additional risk may well limit the attractiveness of rollover CDs to banks until experience indicates that the risk is negligible

or that it can be reduced to reasonable levels through careful management. The future of the rollover CD is still uncertain, and only a moderate amount has been sold by Morgan Guaranty.

As noted, it seems unlikely that these reserve requirements have had any significant effect on the average maturity of CDs, and they complicate considerably the calculation of banks' required reserves.

DEVELOPING COUNTRIES: MEDIUM- AND LONG-TERM DEBT OUTSTANDING AND DISBURSED AT YEAR-END, 1970-1979

	1970	1977	1985	1990
To Private Creditors	32	155	438	771
Low Income Countries	10	10	16	19
Middle Income Countries	22	145	422	752
To Official Creditors, including Multilateral	37	104	302	507
Low Income Countries	15	39	108	183
Middle Income Countries	21	65	194	324
Total	69	259	740	1,278
Total at 1975 prices	113	231	348	449
Gross International Reserves	22	103	266	441
Low Income Countries	3	11	23	38
Middle Income Countries	19	92	243	404

Note:

Reserves in Months of Import Coverage

Note: Totals may not add due to rounding

This measure expresses gross international reserves in terms of the number of months' imports they could pay for, with imports at the average level for the year in question.

Source: World Bank, World Development Report

al Bank in New York in 1974, has significant ramifications. For the first time since the 1930s, the specter of possible failure of even major financial institutions arose, making investors more sensitive to relative risk in evaluating CDs issued by different banks. Accordingly, investors did demand noticeably higher rates on the CDs of banks viewed as less stable. Since the early years of the CD market, distinctions had typically existed between rates paid by banks then classified as prime and nonprime, but the multiplier market introduced a rather more refined differentiation.

For the most part, in the new tier structure, the larger banks pay lower rates.

Bank size affected rates paid on CDs in two ways. Liquidity considerations favored the CDs of the large money market banks, since the secondary market for them is the most developed. And banks that attempted to place issues of their CDs beyond the circle of regular customers who knew them well had to pay a premium. For both reasons, regional banks trying to tap new sources of funds with their CDs in 1974 generally had to pay higher rates than did large money market banks. In 1975, when public attention began to focus on the financial crisis in New York City, even some large New York City banks found their CDs being less favorably received by investors than before. That change in the structure of CD rate tiers has since moderated significantly.

The development of a tiered market in CDs may be taken as the maturation of the CD as a money market instrument. The earlier, relatively crude differentiation between prime and nonprime CDs was a rather peculiar feature of the CD market. A refined structure of tiered borrowing rates has, for example, long been a standard feature of the bond and commercial paper markets. In response to the development of tiering in the CD market, some banks may very well have changed their approach to lending or investing funds obtained through CDs, thus giving more emphasis to asset management relative to liability management. It is probably safe to conclude that banks are now far more conscious of the impact of their incremental CD exposure on their total cost of purchased funds than they were prior to 1974.

Another indication of the maturation of the CD market is that, as banks on the whole faced sluggish loan demand from the beginning of 1975 until relatively recently, they allowed their CDs to run down. At the same time, they restructured their balance sheets by expanding their investment portfolios considerably. This is the first time since 1961 that banks in the aggregate voluntarily reduced their CDs to any significant extent. Earlier contractions had occurred when market rates exceeded regulation Q ceilings. At other times, CDs were always growing, even when loan demand was sluggish. This altered behavior may mean that the rapid growth stage of CDs has ended. Growth on CDs will probably expand and contract in step with the movements of loan demand.

Developments in borrowings of United States banks from their foreign branches were less dramatic during 1973-74 than in 1969. Such borrowings were subject to reserve requirements during 1973-74, and

since Eurodollar rates typically exceeded CD rates, Eurodollars were generally a more expensive source of funds for United States banks than were CDs. Equally important, since the last remaining regulation Q ceiling on CD rates was suspended in May 1973, CDs remained available — though they were extremely expensive — even during the tightest money market conditions in 1973-74.

Under these circumstances, banks relied very little on Eurodollars for domestic lending. In 1973, net borrowings from foreign branches remained in the neighborhood of \$1.5 billion, far below the peak of over \$15 billion in 1969. An unexpected tightening of the money market in early 1974 led to a rapid increase to about \$3 billion, a level maintained through the summer. But a general weakening of demand for credit then became apparent, and starting in October net Eurodollar borrowings were rapidly repaid. Since February 1975, United States banks on balance have been net lenders to their foreign branches.

The lessons of the 17-year history of CDs primarily concern experience with the two means employed by the monetary authorities to influence the CD market: regulation Q interest rate ceilings and reserve requirements.

While regulation Q interest rate ceilings did restrict bank lending to business somewhat during the 1969-70 period, overall credit extended to business was affected much less. The rigidly maintained CD rate ceilings succeeded in preventing deposits from flowing from thrift institutions to commercial banks. But as a result, both suffered severe deposit losses which greatly increased uncertainty in domestic financial markets.

Further Evolution

The further evolution of the financial system since that time, and the increased ability of borrowers to secure funds from outside the banking system make it even more doubtful that regulation Q can be used constructively as a means of monetary control in the future.

As to the various forms of reserve requirements applied to CDs, there is little evidence that they have had any appreciable effect on the market. This holds true for the marginal reserve requirements that are differentiated according to original maturity. Given the increased use of term loans in bank lending to business, there is a presumption that banks should lengthen the maturities of their deposits so as to maintain something of a balance between the maturities of their assets and their liabilities.

In fact, the average maturity of CDs has recently tended to vary directly with the cyclical increase in the proportion of term loans in the portfolios of large banks. But, judging by the timing of maturity changes, very little of this variation appears to be attributable to the lowering of reserve requirements for long-term CDs in September and December 1974. The balancing of asset and liability maturities thus appears to take place over the business cycle independently of changes in reserve requirements.

The most interesting developments in the CD market in the last few years have been the innovations introduced by banks to extend the maturities of CDs. During early 1975, the variable-rate CD was in-

troduced. It has a minimum maturity of 360 days, and its interest rate, pegged at a specified spread over the issuing bank's current rate on 90-day CDs, is adjusted every 90 days. With such an instrument an investor can increase his total interest return over that obtainable by successively renewing short-term CDs without being committed to a fixed rate.

The attraction to the issuing bank is that on a conventional (fixed-rate) CD of the same maturity, the reason is that the investor and the bank in effect split the risk premium included in the spread of the long-term conventional CD rate over the short-term CD rate. It is impossible to determine how many variable-rate CDs have been sold. The amount cannot be very large, since demand for long-term CDs is restricted by the scarcity of long-term investible funds and the relative illiquidity of long-term CDs.

Another recent innovation has the potential of altering somewhat the character of the market as well as lengthening maturities. It is the rollover CD introduced by Morgan Guaranty Trust in late 1976.

The rollover CD allows long-term CDs to be structured so as to be able to take advantage of the existing secondary market. Still, it is not so liquid as a conventional six-month CD, since the investor cannot at present sell his rollover commitment in the secondary market and since the rate of interest is fixed for the entire term of the commitment. Even so, the innovation could enhance considerably the liquidity of long-term CDs.

A disadvantage to the issuing bank of the rollover CD, compared with a conventional long-term, single-maturity CD, is that the bank takes the risk, however small, that

an investor may default on his future commitment to roll over the six-month. The additional risk may well limit the attractiveness of rollover CDs to banks until experience indicates that the risk is negligible

or that it can be reduced to reasonable levels through careful management. The future of the rollover CD is still uncertain, and only a moderate amount has been sold by Morgan Guaranty.

As noted, it seems unlikely that these reserve requirements have had any significant effect on the average maturity of CDs, and they complicate considerably the calculation of banks' required reserves.

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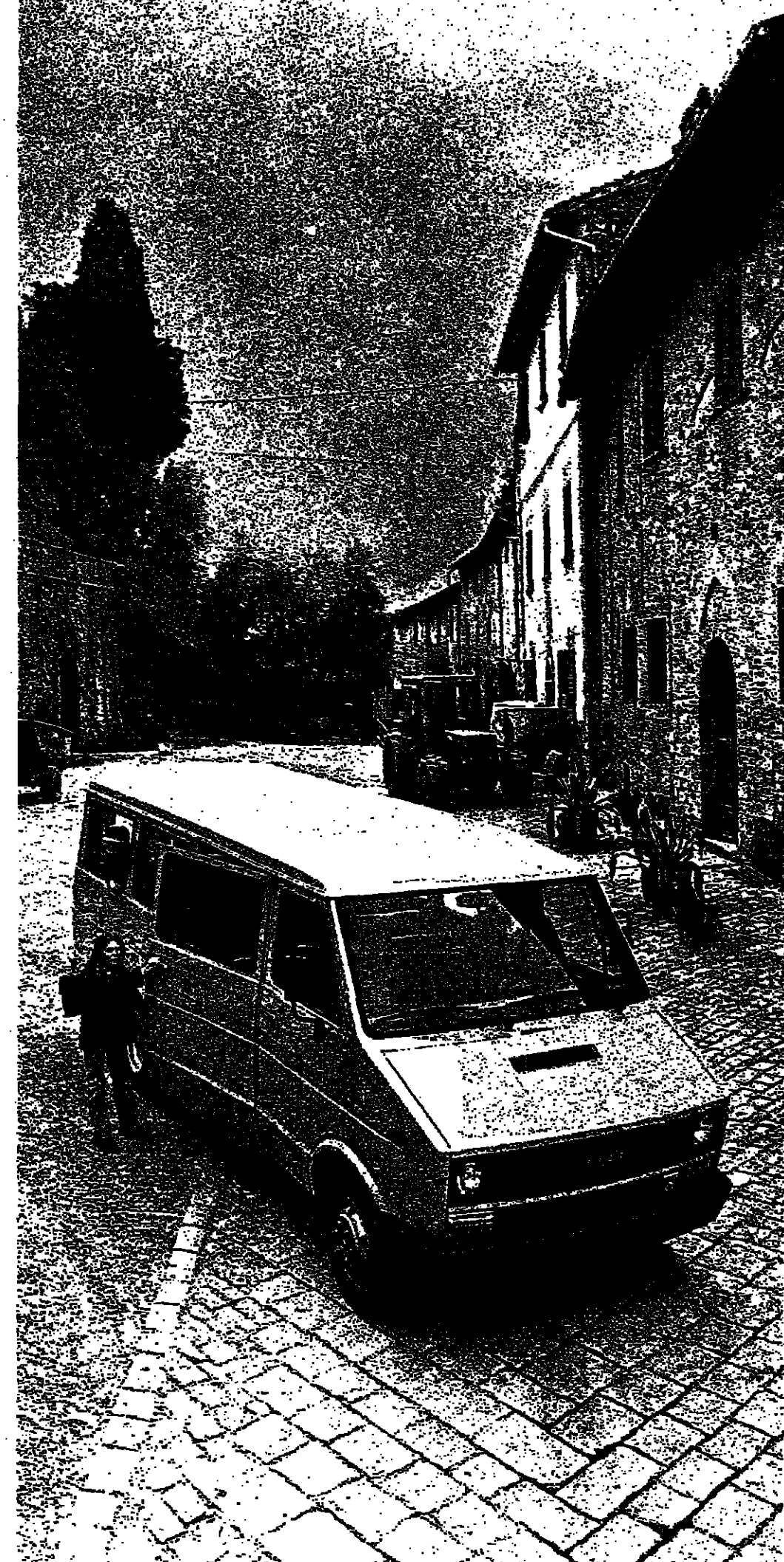
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TOP 35 LEAD BANKING GROUPS IN NUMBER OF EURO-LOANS SIGNED AND ANNOUNCED FROM JANUARY 1-NOVEMBER 9, 1977

Group	Number of lead manager positions
1. Chase Manhattan	71
2. Citicorp	47
3. Bank of America	37
4. Bank of Montreal	37
5. Jovis Bank Group	37
6. Credit Lyonnais	33
7. Bank of Tokyo	27
8. Long Term Credit Bank of Japan	27
9. Morgan Guaranty	27
10. NatWest	24
11. Sun Life Bank	21
12. WestLB	20
13. Bankers Trust	20
14. Deutsche Bank	20
15. Midland Bank	19
16. Manufacturers Hanover	18
17. Chemical Bank	18
18. Industrial Bank of Japan	17
19. Orion	17
20. Royal Bank of Canada	16
21. Libro Bank	15
22. Hambros Bank	14
23. Caisse National de Credit Agricole	14
24. CCF	14
25. Grindlays Bank	13
26. Barclays Bank	13
27. Mitsui Trust & Banking Corp	12
28. DG Bank	12
29. Commerzbank	10
30. UBAF	10
31. SFE Bank	10
32. Mitsui Bank	9
33. Canadian Imperial Bank of Commerce	9
34. Gulf International Bank (Bahrain)	9
35. Dresdner	9

Source: Caplan International Finance Data Inc.

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To find out more about our Eurobanking services just contact: A. Feilen, Managing Director, Syndicated Euroloans; L. Ottaviani, Money market and foreign exchange dealing; Dr. H. Braun, Security trading.

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GIROZENTRALE

November 22, 1979

Euromarkets

Fed Policy Is Lesser of 2 Evils

By Hobart Rowen

NEW YORK — It is now about two months since the Federal Reserve Board's dramatic and drastic moves Oct. 6 boosting interest rates and adopting monetarist tactics to put a crimp in the expansion of bank lending.

The Fed's steps were taken in the wake of a flight from the dollar that threatened to be a worldwide disaster. Pressures from other countries, which saw the United States ineptly fighting double-digit inflation, were too strong to resist.

The Fed's package reflected the growing power of a new chairman, Paul Volcker. It has been received warmly despite a big jump in interest rates, unsettled stock and bond markets, and a general admission by the Fed itself that one consequence will be deeper recession in the United States next year.

The predominant view is that the tough Fed policy was the lesser of two evils. The other would have been an uncontrolled inflation, a dumping of the dollar and a serious crash — a specter that persuaded three Federal Reserve governors, who earlier resisted an austere approach, to go along with Volcker.

More or less naturally, the question that is Topic A in the business and financial world is: Will the Fed stick with its tough policy, or will it be forced to back off, either because the recession is getting too oppressive or because President Carter tries some arm-twisting during the political season?

Substance

The first thing to note is that Mr. Volcker's drift into monetarist strategy may be temporary. He feels that the current focus on money supply and bank reserves — rather than interest rates — is the simplest way of stating the Fed's objectives in a way that the public can understand. He is said to feel that this is especially important in a time of excessive inflation and uncertain economic relationships.

But it is really more complicated than that. In the first place, the Organization of Petroleum Exporting Countries is going to have a lot to say about it. At a mid-November congressional appearance, Mr. Volcker made it plain that "a very large" increase in oil prices would force the Federal Reserve to loosen its money growth targets.

In one sense, the key symbol of the Fed's new policy is the devotion

to the idea that the central bank should stick doggedly to firm adherence to money supply targets through thick and thin.

Volcker has been having greater success than former Fed chairman G. William Miller in trying to stay within stated targets. But as he now admits, a massive oil price increase would force the Fed to allow somewhat greater money growth. He says flatly that such growth could undermine prospects for correcting inflation.

Test

The way most businessmen and financial experts see it, the test for Fed policy would come at a time when unemployment is moving up and hits a rate, say, of 8 percent. Does the Volcker Fed then consciously try to lower interest rates as a stimulus to the economy?

"Under those conditions, I would expect lower interest rates without consciously increasing the money

supply more than planned," Mr. Volcker told a House committee.

He reportedly feels that the real test of the Fed's determination won't come during next year's recession, but in a recovery period — if there is one. Typically, interest rates might start up again while unemployment might be pressured by politicians, liberal economists and others to expand money targets, pumping additional strength into the economy. Volcker is said to feel that if the Fed succumbed to such pressures, a new inflationary cycle would be generated.

Academic

But whether Volcker's carefully crafted majority at the central bank would go along with that view is not clear at the moment.

All of this in the end could prove highly academic because of the oil crisis. Oil supply shortages and the stunning price increases this year (and we've only seen the beginning

of the problem) will cause a wide economic downturn in 1980.

The main result Mr. Volcker has been hoping to see from his policy — an easing of inflation — is not a likely event for months ahead. Privately, the Federal Reserve Board is said to be looking for a further decline in purchasing power, it's hard to say what will trigger recovery from recession.

The bottom line, as it can be pieced together from public statements and private guidance, is that the Fed, which was regarded as one last bastion against a new inflation — especially after it has taken an exceedingly serious view of the situation. The Fed's austerity policy surely deepens recession, and even moderate prices a bit what they might otherwise be. But it's still double-digit the way, thanks to oil prices.

TOP 35 LEAD BANKING GROUPS IN VOLUME OF EURO-LOANS SIGNED AND ANNOUNCED FROM JANUARY 1-NOVEMBER 9, 1979

Group	Volume of Loans \$ equivalent
1. Citicorp	11,144.30
2. Chase Manhattan	7,993.32
3. Credit Lyonnais	7,459.71
4. Bank of Montreal	7,275.04
5. Lloyds Bank Group	6,555.22
6. Bank of Tokyo	6,243.54
7. Bank of America	5,341.49
8. Morgan Guaranty	5,136.39
9. WestLB	4,199.41
10. Manufacturers Hanover	3,860.00
11. Deutsche Bank	3,749.55
12. Chemical Bank	3,299.00
13. Industrial Bank of Japan	2,965.95
14. NorWest	2,926.50
15. Bankers Trust	2,852.00
16. Long Term Credit Bank of Japan	2,701.94
17. Midland Bank	2,174.19
18. Barclays Bank	2,044.93
19. Sumitomo Bank	1,921.57
20. Royal Bank of Canada	1,818.49
21. DG Bank	1,600.00
22. Societe Generale	1,500.00
23. Fuji Bank	1,540.00
24. Grindlays Bank	1,512.90
25. Canadian Imperial Bank of Commerce	1,402.00
26. BNP	1,383.00
27. Dresdner	1,317.44
28. Orion	1,297.14
29. Warburg	1,297.00
30. Toronto-Dominion	1,170.00
31. Bayerische Landesbank	1,100.00
32. Commerzbank	1,083.00
33. First Chicago	1,027.75
34. Swiss Bank Corporation	1,020.00
35. UBAF	1,012.27

Source: Caplan International Finance Data Inc.

Two Illusions: Diversification, Coupons

(Continued from Page 14S)

stable of the currencies in the system.

The eu has been used for close to 100 Euro-issues since 1961. Yields tend to be lower than those of the Belgian franc and guilder because investors perceive the risk as being lower than that of a single currency.

Euro offerings are made by international syndicates. Maturities are long. The secondary market is quite good.

The eu has been the most successful of the artificial currencies because it could prove its stability and a large market has been developed.

The basket type of unit is of a different nature. It is various amounts of different currencies put together and given a name. The sdr is a basket of 30 percent dollars, 12 percent deutsche marks and varying amounts of 14 other currencies. It is also the unit of account. It thus has some official flavor and some

countries have their currency pegged to the sdr.

Some issues were made in sdr's. Investors were mainly institutions. Yields are lower than the weighted average of the component currencies.

The eu of the eu is also a basket. So far, it has lacked the official support that would be needed for capital market operations.

Some domestic-based markets are occasionally in fashion, like the Danish market was from 1977 to early 1979, when it attracted investment from Benelux and Germany because of very high tax free rates (about 16 percent for a 6 to 7 year government paper) and a currency linked to the sdr.

The Austrian domestic bond market is occasionally attractive since there is no withholding tax on domestic or foreign bonds. The Austrian shilling usually follows the dm very closely and interest rates are sometimes higher than in dm. Foreign issues include some foreign underwriters. Both foreign and do-

mestic bonds are usually easy to buy.

Canadian dollar Eurobonds have been issued by Canadian and foreign borrowers at yields in line with domestic yields. The secondary market is more or less satisfactory. The volume of new issues depends on the mood of international investors as to the currency.

Dinar

There are regular foreign-Euro issues in Kuwaiti dinar led by Kuwaiti institutions and mainly sold in Kuwait. The offerings involve international banks and a listing in Luxembourg. While offerings have included prime names, the market has been restricted mainly to Middle East investors. This is because of the exotic flavor of the currency, which has been linked to the dollar up to now and which yields 1 to 2 percent less than the dollar. The euromarket provides short-term investment opportunities in the form of deposits with banks or indirectly through fiduciary accounts.

Interbank Euro-rates are the domestic rates for most currencies except when extended spreads on some currency like the franc or yen drives rates below domestic rates, even below zero.

Eurodeposits are possible amounts as little as the equivalent of \$25,000 at around 1 1/2 percent low interbank bid rates, and close to interbank bid rates amounts equivalent in dollars in yen for amounts of at least equivalent of \$100,000. Equity financing in the international market is a much smaller segment of bond and interbank financing. National stock exchanges provide enough opportunities for interested investors.

Convertible Eurobonds are issued regularly and occasional stocks are issued on the Euro market through European deposit receipts, which ease the marketable and tax problems. (Mr. Coussment is an executive director of Kredietbank S.A. Luxembourg.)

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12 Month Stock										12 Month Stock										12 Month Stock									
High	Low	Div.	Ins	Yld.	P/E	Sis.	100s.	High	Low	Div.	Ins	Yld.	P/E	Sis.	100s.	High	Low	Div.	Ins	Yld.	P/E	Sis.	100s.	High	Low				
Ch'se	Prev	Close	Qual.	Close				Ch'se	Prev	Close	Qual.	Close				Ch'se	Prev	Close	Qual.	Close				Ch'se	Prev				
12 Month	Stock							12 Month	Stock							12 Month	Stock							12 Month	Stock				
High	Low	Div.	Ins	Yld.	P/E	Sis.	100s.	High	Low	Div.	Ins	Yld.	P/E	Sis.	100s.	High	Low	Div.	Ins	Yld.	P/E	Sis.	100s.	High	Low				

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316	814	WAVE					286

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NYSE Nationwide Trading Closing Prices Nov. 27

Tables include the nationwide prices up to the closing on Wall Street.

Stock	Low	High	Open	Close	Change
IBM	121 1/4	121 3/4	121 1/4	121 3/4	+ 1/4
AT&T	47 1/4	47 3/4	47 1/4	47 3/4	+ 1/4
GE	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4
Westinghouse	24 1/4	24 3/4	24 1/4	24 3/4	+ 1/4
General Electric	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4
IBM	121 1/4	121 3/4	121 1/4	121 3/4	+ 1/4
AT&T	47 1/4	47 3/4	47 1/4	47 3/4	+ 1/4
GE	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4
Westinghouse	24 1/4	24 3/4	24 1/4	24 3/4	+ 1/4
General Electric	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4

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99 11/16	11/16	11/16	11/16	11/16	11/16
100 11/16	11/16	11/16	11/16	11/16	11/16

Toronto Stocks

Closing Prices, November 26, 1979

Stock	Low	High	Open	Close	Change
IBM	121 1/4	121 3/4	121 1/4	121 3/4	+ 1/4
AT&T	47 1/4	47 3/4	47 1/4	47 3/4	+ 1/4
GE	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4
Westinghouse	24 1/4	24 3/4	24 1/4	24 3/4	+ 1/4
General Electric	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4

Montreal Stocks

Closing Prices, November 26, 1979

Stock	Low	High	Open	Close	Change
IBM	121 1/4	121 3/4	121 1/4	121 3/4	+ 1/4
AT&T	47 1/4	47 3/4	47 1/4	47 3/4	+ 1/4
GE	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4
Westinghouse	24 1/4	24 3/4	24 1/4	24 3/4	+ 1/4
General Electric	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4

Canadian Indexes

November 27, 1979

Index	Value	Change
TSX 300	1,000.00	+10.00
TSX 600	1,000.00	+10.00
TSX 900	1,000.00	+10.00
TSX 1200	1,000.00	+10.00
TSX 1500	1,000.00	+10.00

EEC Prices Rose

1.1% in October

From Agency Dispatches
BRUSSELS, Nov. 27 — The consumer price index for the European Community as a whole rose by 1.1 percent in October from September, the EEC Commission reported. This compared with a 1.0 percent rise in September from August.

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GE	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4
Westinghouse	24 1/4	24 3/4	24 1/4	24 3/4	+ 1/4
General Electric	29 1/4	29 3/4	29 1/4	29 3/4	+ 1/4

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AMEX Nationwide Trading Closing Prices Nov. 27

Tables include the nationwide prices up to the closing on Wall Street.

[illegible]

12 Month Stock	Sta	Class	Prev	Clos	12 Month Stock	Sta	Class	Prev	Clos	12 Month Stock	Sta	Class	Prev	Clos	12 Month Stock	Sta	Class	Prev	Clos					
High	Low	Div.	Yld.	P/E	100s	High	Low	Div.	Yld.	P/E	100s	High	Low	Div.	Yld.	P/E	100s	High	Low	Div.	Yld.	P/E	100s	
Low Quot. Close	Sta	Class	Prev	Clos	Low Quot. Close	Sta	Class	Prev	Clos	Low Quot. Close	Sta	Class	Prev	Clos	Low Quot. Close	Sta	Class	Prev	Clos					
	Sta	Class	Prev	Clos		Sta	Class	Prev	Clos		Sta	Class	Prev	Clos		Sta	Class	Prev	Clos					
74%	3%	Shirley	42	82	4%	41%	44 1/4	34				41%	3%	Shirley	42	82	4%	41%	44 1/4	34				
74%	3%	Shirley	42	82	4%	41%	44 1/4	34				41%	3%	Shirley	42	82	4%	41%	44 1/4	34				
74%	3%	Shirley	42	82	4%	41%	44 1/4	34				41%	3%	Shirley	42	82	4%	41%	44 1/4	34				
74%	3%	Shirley	42	82	4%	41%	44 1/4	34				41%	3%	Shirley	42	82	4%	41%	44 1/4	34				
74%	3%	Shirley	42	82	4%	41%	44 1/4	34				41%	3%	Shirley	42	82	4%	41%	44 1/4	34				
74%	3%	Shirley	42	82	4%	41%	44 1/4	34				41%	3%	Shirley	42	82	4%	41%	44 1/4	34				
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Eurocurrency Interest Rates

Doller		D-Mark	Sales Price	Sterling	French Franc
1 M. 13 1/16 - 13 3/16	8 1/4 - 8 1/2	3 16 - 3 5/16	16 1/4 - 16 1/2	12 1/2 - 12 3/4	
2 M. 13 1/4 - 13 1/2	8 5/8 - 8 7/8	4 1/8 - 4 1/4	16 3/4 - 17 1/4	12 3/4 - 13 1/4	
3 M. 13 9/16 - 13 11/16	8 9/16 - 8 11/16	4 1/16 - 5/16	16 1/2 - 16 3/4	13 1/4 - 13 1/2	
4 M. 13 1/2 - 13 3/4	8 1/2 - 8 3/4	5 1/8 - 5 1/4	16 1/2 - 16 3/4	13 1/2 - 13 3/4	
5 Y. 12 9/16 - 12 11/16	8 9/16 - 8 11/16	5 1/8 - 5 1/4	15 1/4 - 15 1/2	13 1/4 - 13 1/2	

Currency Rates

By reading across this table of the November 27, 1979 closing inter-bank foreign exchange rates, one can find the value of the major currencies in the national currencies of each of the following financial centers (These rates do not take into account bank service charges):

	\$	£	DM	FF	1/b.	Chf.	Wp. con.	Sw. S.	Den. Kr.
Reservations	15,905	4,228	111,54	47,615	1,273	2,278	5,869	18,55	70,59
Board	62	61	57875	16,316	6,937	3,4075	14,725	17,286	5,48322
President	17,945	3,7075	—	42,62	2,127	8,96	6,134	10,600	3,023
President Elect	1,815	—	3,766	—	1,773,20	4,2475	61,47	1,55	—
Executive (9)	816,55	1,794,40	47,448	200,23	23,230	400,25	28,844	97,65	158,45
New York	4,093	0,463	5,572	0,243	3,1222	0,512	0,035	0,607	0,199
Executive (1)	1,6475	8,965	25,619	—	1,44	2,9732	21,065	14,41	248,59
Executive	6,4075	3,393	9,43015	0,2284	0,20095	84,522	5,7935	—	31,7775
DCU	1,4198	6,65228	2,4722	581,116	1,6233	2,76621	40,139	2,33499	7,25994

* Dollar values rounded to nearest cent.
 P. Box 830578, Miami, Florida 33163 U.S.A.
 (305) 935-0300.
 P. Box 830578, Miami, Florida 33163 U.S.A.
 (305) 935-0300.

EMPLOYMENT

CLASSIFIED ADVERTISEMENTS

(Continued from Back Page)

**PARIS: 525 81 01
SAMANTHA ESCOFF**

CLASSIFIED ADVERTISEMENTS

(Continued from Back Page)

ESCORTS & GUIDES

PARIS: 525 81 01
SAMANTHA ESCORT

COSMOS

Oldest & Most Reliable Escort Service
 • Wide selection of lovely
 and multilingual escorts.
 Open everyday 9:00 a.m. until 2 a.m.
Paris 976 87 65.

РЕЗУЛТАТ

BELGRAVIA
LONDON'S MOST EXCLUSIVE
ESCORT SERVICE.
Ring 736 5877
for that extra special companion.

RESULTS

MAKHAHA
Your Paris-Coronas contact
the finest male and female companion
Every one a gem. 340 38 14.

TUXEDO ESCORT INTERNATIONAL
The best male and female

BOOK'S ISLAND IN GENEVA. C. MARTINE, a friendly guide. Mubling

LUZY IN AMSTERDAM. Open 7 days
from 2 - 3 - 3 - 3 - 3 - 3 - 3

RUSSELLS CALL JUNE for a pleasant interlude. Tel: 640 32 35; 10 am-7 pm

MILANO VIP ESCORTS, prestigiosa. Tel. 86 75 13, every day, 10 am - 9 pm.

VENNA: For VIP's, Michele your private hostess. Tel 57 47 64.
ADDRES: Multilingual Escort Services
 Call: 245 30 57.
WESSELDORF: ENGLISH GIRL awaits you. Call 0211-37 56 91.

hostess. Call Simone: 06127-84666.
IN FRANKFURT CALL HELGA -

Beautiful and amusing. Tel: 2827/28.
WIESBADEN ESCORT EXCLUSIVE
 Call: 0211 492605.
ESCORT SERVICE FOR FRANKFURT
 Call for a nice time: 0611/563629.
NEW-AMSTERDAM Exclusive escort
 service - Amsterdam T-1, non tobacco

LONDON TOP SOCIAL PARTNER
IntEvent - Go places. Tel. 262 3108

IN LONDON YOUR ATTRACTIVE
resort Joanna. 01-370 6573.
ATTRACTIVE DANISH GUIDE, 6 for
groups. London 730 1961 BRITA.
IN LONDON CALL ME. Attractive
friendly. Tel: 727 9082.

736 43 66.
PARIS CALL ENMANUEL. E-

URUCH: For your Escort. Call 850 583; 10.30-12 a.m. / 5-8 p.m.

OR YOUR ESCORT IN PARIS G.

OUR HOSTESS IN PARIS Call 757 448-4818 Afternoon & evening.
ROCKHOLM male escort - excellent service, multilingual. DB-633395.
GENEVA - Call RIFA till 8 p.m. Tel.

022/35 81 88.
LADIES, YOUR ATTRACTIVE ESCORT

Age: 45/28 Yr.
LONDON WITH A LATIN TOUCH
Call Lita 01-402 7949.
LOVE OF LONDON TOWN. Darling
girls forever. 01-579 6444.
MANUELLE your best friend. Multi
Feb 1988

ROTC ESCORTS - A classic agency
London 294 5218

I LONDON CALL ELIZABETH 01-56
 2647.
 I LONDON WITH DENISE. Call 58
 8860 before 8 o'clock.
 I LONDON call Angela, attractive
 and amusing 01 426 7062

TEA AND SYMPATHY in PARIS. To
500 31 08.

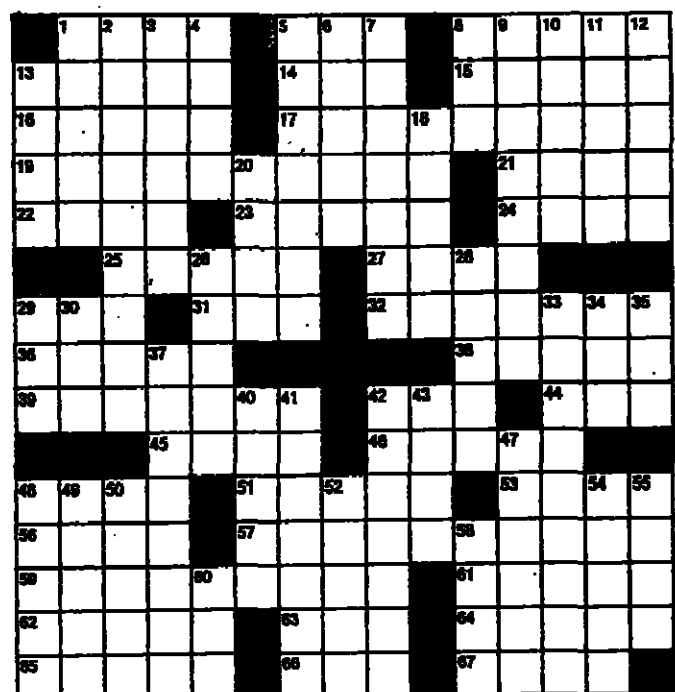
SCORT SERVICE. By well educated and attractive guides, Amsterdam. Tel 247731, Telex 17178.

LONDON CONTACT for that someone really special. 01-402 4000 OR D1-736571.

LONDON: 'LA PARISIENNE ESCORTS'
for the best girls in town. Phone 01-234 5678

THEN IN LONDON call Chelsea Girls Escorts for the prettiest and friendliest girls in town. 01-584 6513/2749.
LONDON CALL TANIA attractive and entertaining. 01 221-4345.

CROSSWORD By Eugene T. Maleska



- ACROSS**
- 1 Stockyard
 - 5 Morse code
 - 9 Band or brace
 - 13 Loose woman
 - 14 Juan Perón's
 - 15 Austerity
 - 16 Word with
 - 17 Temptation for
 - 18 Uses a
 - 21 French city
 - 22 Grackles
 - 23 Hawthorne's
 - 24 "Action" at
 - 25 Pine sap
 - 27 Length or
 - 29 Amorous sound
 - 31 "Some"
 - 32 Friml song
 - 36 "by any"
 - 38 Source of betel
- DOWN**
- 2 Violent
 - 4 Point
 - 6 The number
 - 10 Part of a foot
 - 12 Poker term
 - 14 With 29 Down,
 - 16 Antithesis of
 - 18 Word with
 - 20 Scraggy
 - 22 Nimble
 - 24 "Le Meutes"
 - 26 Kind of agent
 - 28 Melville hero
 - 30 Beat
 - 32 Continent
 - 34 Bishop Fulton
 - 36 Italian
 - 38 Violinmaker
 - 40 See 48 Across
 - 42 Iron in the raw
 - 44 Shielding
 - 46 Tanner coup
 - 48 Swerve at sea
 - 50 Creator of
 - 52 Mike Hammer
 - 54 Contumely
 - 56 Fundamentals
 - 58 down
 - 60 (reprimanded)
 - 62 Galley gear
 - 64 Perform a step
 - 66 Sea skeleton
 - 68 "Die
 - 70 Western flick
 - 72 Arm—, Arai
 - 74 Sea feeder
 - 76 John
 - 78 Alexander is
 - 80 City of Judah
 - 82 Existence
 - 84 Part of
 - 86 "T.G.I.F."

Solution to Previous Puzzle

ACROSS
1. STOCKYARD
5. MORSE
9. BAND
13. LOOSE
14. PERON
15. AUSTERITY
16. WORD
17. TEMPTATION
18. USES
21. PARIS
22. GRACKLES
23. HAWTHORNE
24. ACTION
25. PINE
27. LENGTH
29. AMOROUS
31. SOME
32. FRIML
36. BY ANY
38. SOURCE

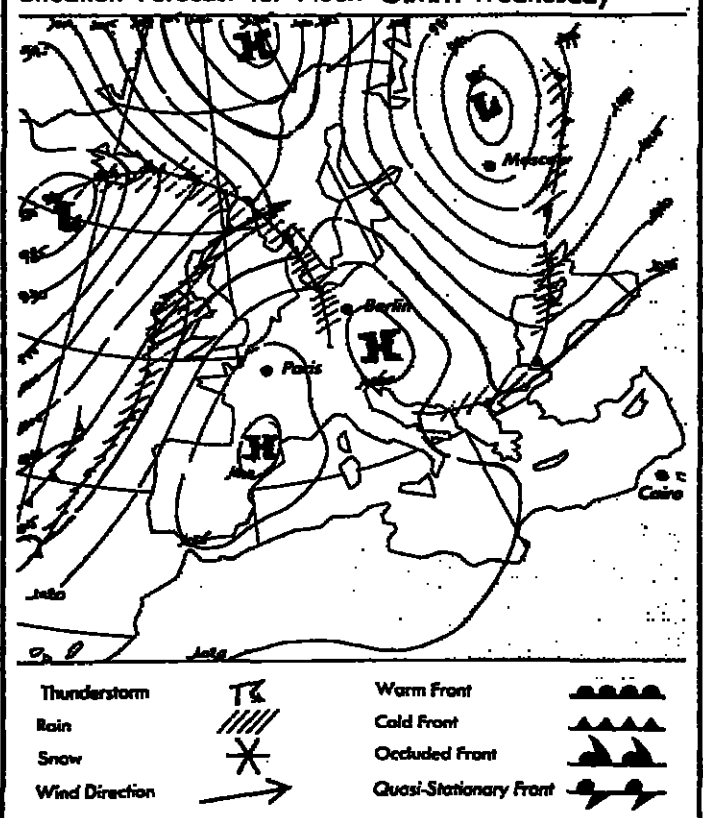
DOWN
2. VIOLENT
4. POINT
6. THE
10. PART
12. POKER
14. WITH
16. ANTITHESIS
18. WORD
20. SCRAGGY
22. NIMBLE
24. LE MEUTES
26. KIND
28. MELVILLE
30. BEAT
32. CONTINENT
34. BISHOP
36. ITALIAN
38. VIOLIN
40. SEE
42. IRON
44. SHIELDING
46. TANNER
48. SWERVE
50. CREATOR
52. MIKE
54. CONTUMELY
56. FUNDAMENTALS
58. DOWN
60. REPRIMANDED
62. GALLEY
64. PERFORM
66. SEA
68. DIE
70. WESTERN
72. ARM
74. SEA
76. JOHN
78. ALEXANDER
80. CITY
82. EXISTENCE
84. PART
86. T.G.I.F.

WEATHER

	C	F		C	F	
ALBANY	15	59	Overcast	MADRID	12	54
AMSTERDAM	9	48	Overcast	MIAMI	27	81
ANKARA	9	48	Cloudy	MILAN	10	50
ATHENS	13	55	Cloudy	MONTREAL	9	48
BELGRADE	2	32	Overcast	MOSCOW	1	34
BERLIN	8	46	Cloudy	MUNICH	9	48
BRUSSELS	8	46	Rain	NEW YORK	12	54
BUDAPEST	4	39	Rain	NICE	16	61
CASABLANCA	23	73	Fair	OSLO	5	41
COPENHAGEN	7	45	Fair	PARIS	13	55
COSTA MESA, CALIF.	15	59	Overcast	PRAGUE	7	45
DUBLIN	12	54	Overcast	ROME	14	57
EDINBURGH	5	41	Overcast	SOFIA	3	37
FLORENCE	8	46	Overcast	STOCKHOLM	1	34
FRANKFURT	8	46	Rain	TEHRAN	16	61
GENEVA	10	50	Overcast	TEL AVIV	25	77
HELSINKI	1	34	Snow	TOKYO	15	59
HOUSTON	24	75	Cloudy	TURIN	15	59
ISTANBUL	11	52	Cloudy	VIENNA	8	46
LAS PALMAS	24	75	Overcast	WARSAW	5	41
LISBON	12	54	Fair	WASHINGTON	15	59
LONDON	14	57	Overcast	ZURICH	8	46
LOS ANGELES	24	75	Cloudy			

(Yesterday's readings U.S. and Canada of 1968)

Situation Forecast for Noon G.M.T. Wednesday

Poetic Retribution in Britain:
Cows Give Squeeze to Farmer

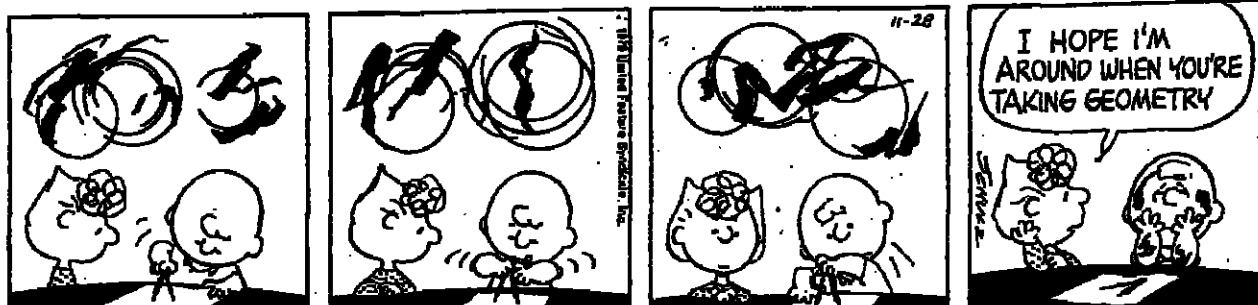
FISHGUARD, England, Nov. 27 (UPI)—Dairy farmer Robert Gates is selling his 60 milk cows for health reasons. He's allergic to them.

"It's incredible, but the hospital tests are conclusive," says Mr. Gates, 41, who grew up working on farms. "At first I laughed because I thought it was a joke, but it's true. I'm allergic to cows."

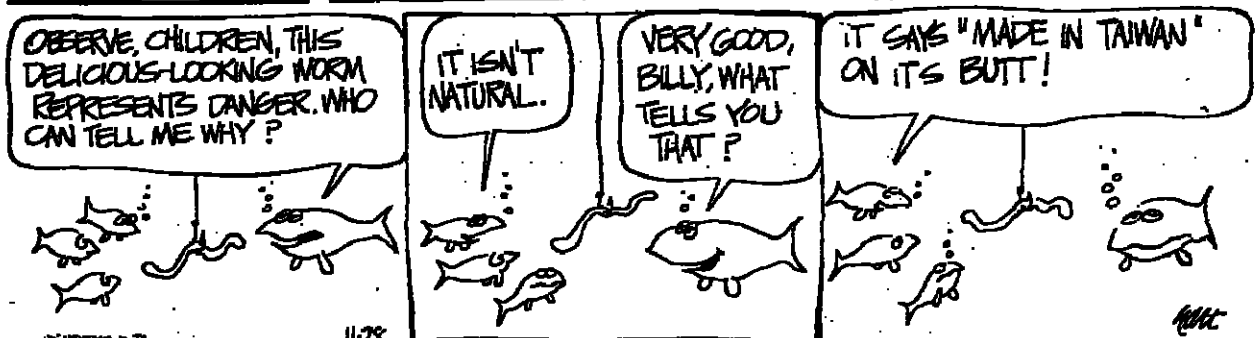
Mr. Gates said that he went to his doctor because he kept getting headaches, nosebleeds and skin blotches. The doctor ordered allergy tests and, when the results came in, suggested that Mr. Gates find a new line of work.

"It's all so crazy, but now I have begun to see the funny side of it," he said. "I guess it's like a monkey being allergic to horses."

PEANUTS



B. C.



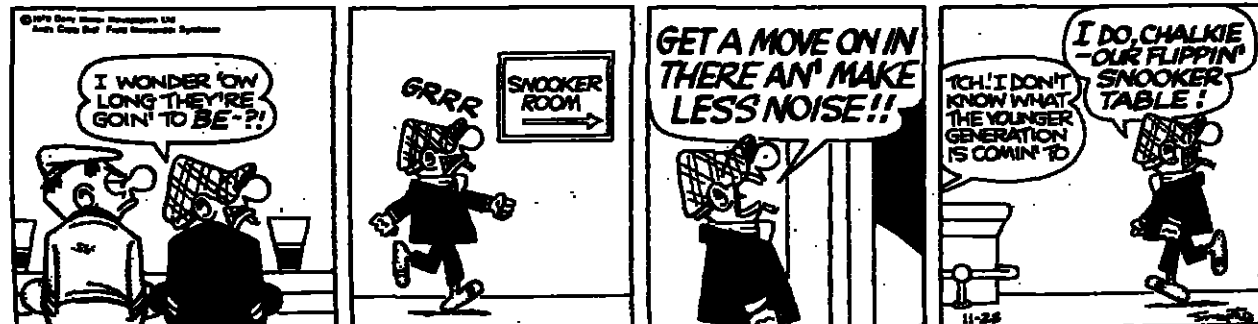
BLONDIE



BEETLE BAILEY



ANDY CAPP



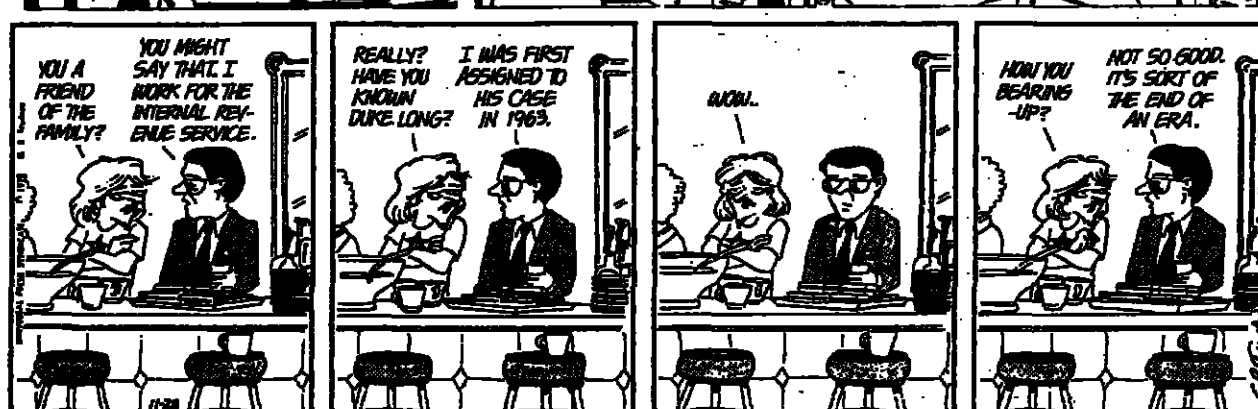
WIZARD OF ID



REX MORGAN



DOONESBURY



JUMBLE

Unscramble these four jumbles, one letter to each square, to form four ordinary words.

RINED
MAORA
UPCOLE
ENBAUT

Answer here: THE (Answers tomorrow)

Yesterday's Jumbles: EXUDE CROAK BEAUTY COMPEL
Answer: What too much celebrating might keep a man from becoming—CELEBRATED

"Registered as a newspaper at the Post Office"
"Printed in Great Britain"

BOOKS

THE BOER WAR

By Thomas Pakenham. Random House.
Illustrated. 718 pp. \$20.

Reviewed by John Leonard

THE literary Longfords do persist in scribbling. The Earl of Longford has written books on John Kennedy and pornography. His wife, Elizabeth, has written books on Wellington and Byron and Queen Victoria. One of their daughters, Antonia Fraser, has written books on Charles II, James I and Cromwell, plus two mysteries. Another daughter, Rachel Billington, has published seven novels, with an eighth due in the United States in January. Their son, Thomas Pakenham, who wrote a splendid account of the Irish Rebellion of 1798, appears now with an equally splendid account of the Boer War, 1899-1902. All Longford books are long, and most of them are adopted by book clubs on both sides of the Atlantic. The son never sets on British historiography.

Why should the Boer War be of interest? It should be of interest to the British because it required a force of 448,435 British and colonial soldiers 2½ years, £200 million and 436,000 horses, mules and donkeys to subdue 87,365 Boers on horseback, in covered wagons and in trenches. It took so long and cost so much—22,000 British dead, between 25,000 and 35,000 dead Boers—because the Boers didn't play fair. They moved around a lot, the folk of the Veldt, and they used forced black labor to dig the trenches in which they hid with smokeless, long-range, high-velocity, small-bore rifles and machine guns. British cavalry were annihilated.

And, with Kaiser Wilhelm of Germany watching every British blunder, 1914 was just around the corner.

Vietnam Dress Rehearsal

The Boer War should be of interest to Americans because it was a near-perfect dress rehearsal for Vietnam yet to come: unavailing superior force against a guerrilla army that melts into the countryside, in a war no one understands. When a frustrated Kitchener, who would really rather be in India, builds blockhouses and strings them together with barbed wire when he burns down farms; when he insists on a "body count," a monthly "bag" of dead and wounded Boers; and when he establishes disease-ridden concentration camps to contain African women and children—we seem to be reading yesterday's headlines.

It was a war both sides deserved to lose, and those who lost the most—the despised blacks—belonged to neither side. They had been around as slaves in the original Dutch colony, before the British took over to guard their sea-lanes to India. If they were luckless enough to be the local Xhosa in 1815, the British and the Boers marched together against them. If they happened to be the Zulus in the north of Natal in 1834, when a British edict outlawed slavery in the Empire, they had to make way for, or be killed by, the Boers who refused to accept the edict and went on the Great Trek beyond the Orange River and into the Vaal. Generally speaking, they were "commandered" to work in the mines at starvation wages and were not, of course, allowed to vote.

At issue, ostensibly, in 1899 was the refusal of the Boers in Transvaal and the Orange Free State to let the Uitlanders—white, non-Dutch immigrants—vote after five years' residence. In fact, England was dragged into war by Alfred Milner, the high commissioner for British South Africa, who dreamed of a "white empire," and by the "gold-bugs," Alfred Beit and Julius Warriner, who along with the egotistical Cecil Rhodes, wanted to secure the gold mines of the Rand for themselves. They were helped by the lamentable diplomacy-by-ultimatum in which the president of Transvaal, Paul Kruger, specialized. The British blunders began almost immediately, with mobilization and transport and communications strategy. The Crown spent the first year of the war relieving the sieges

of Ladysmith, Kimberley, Mafeking, before taking Johannesburg and Pretoria. It spent the year and a half chasing Boers who were supposed to have been 60 years later they dropped of the Commonwealth, declared Union of South Africa a man and the blacks still can't vote.

Pakenham, as might be expected, gained access to secret, unpublished state papers, and private letters, as well as interviewing a number of survivors. The history is superb. The book is both sides—destroying the shooting prisoners of war was appalling. A case is made for Sir Redvers Buller, the commanding officer of the First Army, who has been vilified by some historians, but Pakenham's heart clearly belongs to Boers like Christian de Wet and Botha.

And that—the romance of Boers—is the trouble. We see Kruger in his top hat, looking Germinio; of the bush boer, the campaign of cow dung in covered wagons; of this one by a nation of small farmers with rifles and Bibles; of the Never mind that they paid for war with forced labor in the mines, that they bought Mausers via a series of concessions to the Germans; they were merely inconvenienced the Xhosa and the Zulus in way. Even now, as they have coal-mining plants, the powerful myth to sustain their racism. It will be ugly.

John Leonard is on the staff of the New York Times.

Best Sellers

The New York Times
This list is based on reports from 1,400 bookstores throughout the United States. Books on list are not necessarily best sellers.

- FICTION**
1. THE ESTABLISHMENT, by Howard Fast
 2. THE LAST OF THE MOHICANS, by James Fenimore Cooper
 3. TRIPLE DEE, by Ken Follet
 4. THE DEAD ZONE, by Stephen King
 5. THE LAST SCANDAL, by Mary Stewart
 6. THE GREEN RIFTER, by John MacDonald
 7. SORCERER'S CHOICE, by William S. Barington
 8. THE EXECUTIONER'S SONG, by Norman Mailer
 9. MEMORIES OF ANOTHER DAY, by Helen Brown
 10. SHADOW OF THE MOON, by M.M. Kaye
 11. THE MATARESE CIRCLE, by Helen Brown
 12. WAR AND REMEMBRANCE, by Herman Wouk
 13. THE GHOST STORY, by Philip Roth
 14. PASSION PLAY, by Jerry Kohn
- NONFICTION**
1. AUNT ERMA'S COPE, by Emma Bonestell
 2. THE COMPLETE SCIENCE OF DALE MEDICAL DIET, by Herman Tazewell, M.D., and Sam Sackler Baker
 3. THE WALKING HOUSE, by Helen Brown
 4. HOW TO PROCEED DURING THE COMING BAD YEARS, by Helen Brown
 5. THE RIGHT STUFF, by Tom Wolfe
 6. THE PATRIOT PROGRAM, by Helen Brown
 7. CRUEL SHOES, by Sam Sackler Baker
 8. RESTORING THE AMERICAN DREAM, by Robert Ringer
 9. JAMES HEARST'S YORKSHIRE, by James Hearst
 10. SERPENTINE, by Thomas Thompson
 11. AN INDIAN, by Norman Cousins
 12. THE OLD PATAGONIAN EXPRESS, by Paul Theroux
 13. SECOND WIND, by Bill Russell and Taylor Branch
 14. HOW YOU CAN BECOME A MILLIONAIRE BY INVESTING IN REAL ESTATE, by Albert J. Isaacs
 15. THE DAY THE RUBBLE BURST, by Gordon Thomas and Max Morgan-Witts

BRIDGE

By Alan Trice

A GREAT many tournament players are convinced, beyond reach of argument, that the computer that "deals" the cards in many events is out to get them. Whenever trumps are bunched in one hand or somebody has an eight-card suit, the computer gets the blame.

All objective tests show that the computer produces deals that, over the long haul, conform to mathematical expectations. Nevertheless, this mild form of paranoia persists. The boot is really on the other foot. Human dealing is likely to bring about departures from the norm, especially if the deck is arranged in suits and the shuffle is inadequate.

The judge deal shown in the diagram is nearly, but not quite, the hand that results from dealing a deck that has been sorted into suits. It can be seen that several combinations, A-7, K-10-6, Q-9-5 and J-8-4 appear in at least three hands.

One would expect the deal to be passed out. In the replay, however, South opened as shown, and his partner pushed him to four spades. South appears headed for the loss of one trick in each suit and perhaps more, but he had some help when West led a diamond. The declarer exposed the jack with the queen and played A-7 of hearts. This was ducked to East's ten, and he returned a diamond to the ace. A heart ruff established dummy's

suit, and a diamond ruff led to dummy. The spade was led and won second to the queen. East did not cover.

The contract was now 4-1 in the club suit for another against East's trump queen. West returned the club, solving South's problem in the jack with the queen, the king the would have followed. South could still have made the contract by leading the spade eight to dummy, pinning West's seven.

NORTH
♠ J84
♥ Q9532
♦ A7
♣ K106

EAST
♠ QJ5
♥ K10632
♦ J85
♣ A7

SOUTH
♠ K10632
♥ A7
♦ QJ5
♣ Q104

East and West were vulnerable.
bidding:
East South West
Pass 1♣ Pass
Pass 2♠ Pass
Pass Pass Pass
West led the diamond three.

DENNIS THE MENACE



